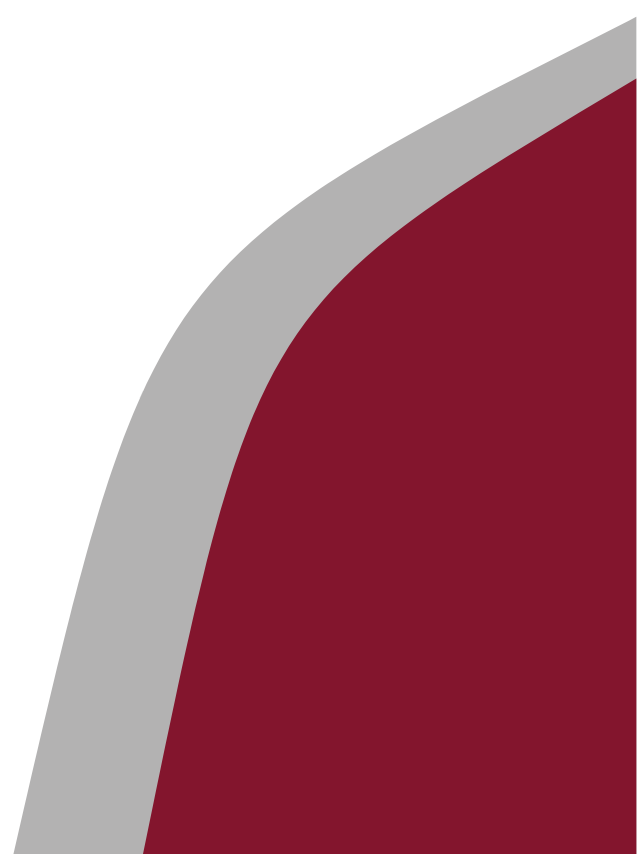


# Annual report 2017



Independent Authority  
*for* Fiscal Responsibility





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## President's letter



2017 has been a key year for the Independent Authority of Fiscal Responsibility (AIReF). This institution was created in 2014, with the aim of guaranteeing effective Public Administration compliance with the principles of budgetary stability and financial sustainability, and it was staffed at the end of that same year. Since then, it has been carrying out its ordinary work through the publication of reports and opinions **analysing budgetary documents' compliance with fiscal rules**, including the endorsement of the macroeconomic forecasts included therein. This activity is carried out through the publication of technical documents, opinion pieces and periodic analysis tools on the matters that have been entrusted to the institution.

**In relation to the institution's usual work, as in 2016, in 2017 the exceptional nature of the 2017 budgetary cycle, as a consequence of the carry-over of the General State Budget, was modified, altering the Authority's report publication calendar as explained in this report. Specifically,** in relation to compliance with the stability target, it should be noted that the projected deficit target of 3.1% of GDP was considered to be difficult to achieve but feasible, highlighting large differences among sub-sectors. Throughout the year, AIReF considered that, in general, the Autonomous Communities were going to comply with their target, and that the expected surplus for the LGs would offset the foreseeable deviation of the Central Administration (CA) and Social Security. Compliance with the expenditure rule and the debt target was expected, although with some nuances at the sub-sector level.

Regarding the macroeconomic forecasts included in the different budgetary documents, all have been endorsed by AIReF, but noting that the official forecasts were considered prudent at the beginning of the year and more **in line with AIReF's estimates** towards the end of the year, when they already exceeded growth of 3% of GDP. It is worth noting the effort made by AIReF in analysing the uncertainty of the Catalan institutional crisis and incorporating it into our forecasts, even developing specific models for Catalonia.

Beyond its ordinary activity, last year was of great significance for the institution for several reasons: on the one hand, a mid-term external evaluation report of the institution was commissioned, which was prepared by the OECD. The execution of an independent external evaluation was a commitment **undertaken before the Congress of Deputies, and is part of AIReF's 2015-2020 Strategic Plan.** As indicated in this report, the report that was issued at the end of November follows the OECD principles for this type of evaluation, addressing the institutional context and design, the resources for performance of the mandate, the outputs produced and **analysis methodologies and the impact of the institution's activity.** **Important messages have been** taken from the recommendations that will be taken into account in order to redefine some aspects of the institution's Strategic Plan, whose review is presented in 2018.

On the other hand, although the AIReF law provided for the preparation of studies at the request of the Public Administrations concerned, as of 2017 there had yet to be any commissioned. Last year marked a turning point for the Authority since, for the first time, it received external appointments related to the preparation of studies for the Government of Cantabria and that of Catalonia. In addition, this work will continue in 2018 with the Spending Review. This is an ambitious multi-year project that will focus initially focus, in 2018, on expenditure on subsidies and that will be completed with new projects in the following years. These new tasks entailed the recruitment of new staff to the institution.

**Likewise, in 2017, it is also necessary to remember that AIReF's institutional activity both** nationally and internationally was notable, with presence in numerous forums of interest in the economic world and, on several occasions, in the Parliament. AIReF appeared before both Congress and the Senate to give explanations not only to the Committee on Budgets but also to the Committee on Economy, the Committee on the Toledo Pact or the Committee on Employment, addressing matters such as pensions or minimum income. In addition, the AIReF President has been re-elected as President of the European network of IFIs in which the institution has had a great presence at the international level, participating in numerous meetings with representatives of the European Commission and with counterparts from other countries.

In this report, all the events that have made 2017 a key year are explained in greater detail not only for this institution but for all the independent fiscal institutions. In 2018, AIReF will continue to work under the principles of independence, transparency and accountability to disseminate the importance of stability and sustainability at all levels.

A handwritten signature in black ink, appearing to be "Jaime", is written over a horizontal line.

# 1. Documents published by AIReF

AIReF performs its functions through the preparation and issue of reports, opinions and studies. The reports and opinions are public, while the publication of studies depends on the authorisation of the administration that has commissioned them. In addition, AIReF publishes working papers related to the scope of its competences. Among other issues, AIReF analyses the long-term sustainability of public finances and Social Security. Likewise, it also has competences in certain aspects of the application of the preventive, corrective and coercive mechanisms foreseen in the Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability (LOEPySF).

The reports published by AIReF are provided for by legislation and are structured around the continuous evaluation of the budgetary cycle, public indebtedness and the analysis of the macroeconomic forecasts. These reports are part of the four-year economic and budgetary strategy defined in the Stability Programme (on which AIReF must prepare a report) and are carried out for each Public Administration (PA) on the four phases of the budgetary cycle: preparation, approval, execution and audit. AIReF is also responsible for preparing reports related to the application of the preventive, corrective and coercive mechanisms of the LOEPySF (not periodically and depending on whether the circumstances foreseen by legislation have materialised). Lastly, each year, AIReF must prepare an opinion on the determination of the pension revaluation index and, when it enters into force, the sustainability factor, and optionally on the rate applicable to benefits for cessation of self-employment.

AIReF adjusted the publication of its reports to changes in the 2017 budgetary cycle. The 2017 budgetary cycle was conditioned by the review of the fiscal consolidation path, the existence of a central caretaker government until October 2016 and the non-presentation of the 2018 General State Budgets (GSB), which affected the AIReF reporting schedule. In August 2016, the European Council extended the deadline for Spain to correct the excessive deficit until 2018, which meant a change in the 2017 stability target. The existence of a central caretaker government until October 2016 and the vertical distribution of the new target between the different levels of government delayed the presentation of the budgets of the different PAs. The Central CA presented its Draft GSB in April 2017.

Also, the 2018 Draft GSB was not presented on schedule, which again gave rise to a situation of budgetary carry-over that affected the AIReF reporting calendar.

In 2017, the budgetary stability target for the General Government was maintained, but not the sub-**sectors' targets, which affected AIReF's evaluations**. In the 2017-2020 Stability Programme Update (SPU), the Government presented a distribution by sub-sector different from that in the 1st notification sent, on the same dates, to the European Commission in compliance with the Excessive Deficit Procedure.

Throughout 2017, the following reports and opinions were issued<sup>1</sup>:

- Report on the macroeconomic forecasts of the budgets of the Autonomous Regions: 2017, issued on 23 January.
- Report on the main budgetary lines and initial budgets of the Public Administrations 2017: Autonomous Regions, issued on 14 February.
- Report on the macroeconomic forecasts of the Draft General State Budgets for 2017, issued on 31 March.
- Report on the main budgetary lines and draft budgets of the Public Administrations: 2017 GSB, issued on 26 April.
- Report on the initial budgets of the Autonomous Regions for 2017, issued on 26 April.
- Report on the initial budgets of the Local Governments for 2017, issued on 26 April.
- Report on the 2017-2020 Stability Programme Update of the Kingdom of Spain, issued on 10 May.
- Evaluation of the economic-financial plans (EFP) of the Autonomous Regions (article 19 of the Organic Law 6/2013). In 2017, this was issued as several reports: 26 June, 6 and 7 July and November 23.
- Report on the expected Public Administration compliance with 2017 fiscal targets, issued on 19 July.

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<sup>1</sup> All reports and opinions can be found on our website: <http://www.airef.es/informes> and <http://www.airef.es/opiniones>



- Report on the establishment of individual budgetary stability and government debt targets for the Autonomous Regions, issued on 27 July.
- Report on the macroeconomic forecasts of the Draft Budgetary Plan for 2018, issued on 18 October.
- Report on the main budgetary lines and draft budgets of the Autonomous Regions for 2018, issued on 26 October.
- Report on the main budgetary lines and draft budgets of the Local Governments for 2018, issued on 19 December.
- Opinion on the determination of the 2017 Pension Revaluation Index, issued on 17 July.
- Opinion on the application of the formula for calculating the contribution rate for cessation of self-employment benefits for the self-employed, issued on 22 November.

In addition, AIReF published three working papers.

The following are the actions performed by AIReF that can be classified as:

- Reports on the budgetary cycle
- Reports on the application of preventive, corrective and coercive measures of the LOEPySF
- Opinions
- Studies
- Working papers and others

## 1.1. REPORTS ON THE BUDGETARY CYCLE

### *1.1.A. Reports on the macroeconomic forecasts and the main budgetary lines, draft budgets and initial budgets for 2017 of the Public Administrations*

The exceptional nature of 2016 precluded the timely issuance of the corresponding AIReF reports on the and main budgetary lines and drafts of the 2017 budgets, except in the case of Local Governments. The delay in the formation of the Government, which led to the non-presentation of the 2017 Draft GSB at the end of September, the absence of setting stability targets, **as well as the difficulty in determining the financing system's resources and the Regions' income** caused the issuance of the AIReF reports on the main budgetary lines and draft budgets of the PAs to be fragmented and delayed, with the exception of the local sub-sector, although the alteration in the publication schedule of these reports has been disparate

in each sub-sector <sup>2</sup>.

## 1. Reports on the macroeconomic forecasts and the main budgetary lines and initial budgets of the Autonomous Regions: 2017

### a) *Report on macroeconomic forecasts*

AIReF endorsed the 2017 forecasts as likely for all the Regions analysed. This report focused on the endorsement of the regional macroeconomic forecasts<sup>3</sup> presented in a differentiated manner from those of the Spanish economy. Given the **heterogeneity regarding the preparation and approval of the Regions' 2017 budgets** eight Regions were analysed: Andalusia, Balearic Islands, Canary Islands, Catalonia, Valencia, Galicia, Murcia and Navarre.

None of the Regions analysed presented forecasts that, according to the model used for comparison, were identified as biased upwards in GDP and in expenditure. The macroeconomic forecasts for GDP and expenditure of each of the Regions for 2017 were evaluated by estimating the confidence levels of these forecasts and analysing the presence of biases, but without carrying out an ex post evaluation of the forecasts of past years. The forecasts for Andalusia, Canary Islands, Valencia, Galicia and Navarre were endorsed as prudent, while the endorsement for the remaining 3 fell within the category of likely.

### b) *Report on the main budgetary lines and initial budgets 2017*

Due to the existence of a caretaker Government throughout most of 2016 and, in the particular case of Galicia and Basque Country, the holding of autonomous elections, the publication of the 2017 report on the budgetary lines was delayed which led, in the case of some Autonomous Regions, to a report being prepared on the initial budgets, as the availability of information on budgetary lines was surpassed by the approved budget. In this sense, AIReF's first opinion on the

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<sup>2</sup> If the 2016 budgetary cycle had followed the usual deadlines, AIReF would have predictably issued its reports on the budgetary lines and draft budgets for 2017 between October and December 2016. As their submission was delayed, AIReF issued these reports between February and April 2017 (with the exception of the local sub-sector, whose report was issued within the 2016 deadline). Specifically, in the case of the Regions, AIReF issued its opinion on the macroeconomic forecasts of their Budgets on 23 January and on the main budgetary lines and initial budgets both on 14 February and on 26 April. In the case of the CA and Social Security, AIReF issued its opinion on the macroeconomic forecasts on March 31 and on the draft budget itself on April 26, the same date on which the report on the initial budgets of the Autonomous Regions and Local Governments and an assessment of the joint target of the General Government was issued.

<sup>3</sup> In accordance with the provisions of article 14 of the Organic Law 6/2013, the macroeconomic forecasts that are incorporated into the drafts budget of all the PAs or in the Stability Programme must be reported on by the Authority and said budgetary documents will indicate whether or not the forecasts have been endorsed by AIReF.

regional sub-sector was issued in February 2017, in which, depending on the available budgetary document, the main budgetary lines or initial budgets were reported upon. This report was completed as the Regions presented their main budgetary lines or approved their budgets. Additionally, as a result of the publication of data with a substantial impact, in the April publication AIReF updated the closing forecasts, thereby issuing an opinion on the sub-sector once more.

At the sub-sector level, in all these reports AIReF considered the achievement of the stability target of -0.6% GDP to be feasible. The increase in the financing system's resources that the Regions would receive in 2017 compared to 2016, alongside the adjustment of 0.2% GDP needed to reach the target set in 2017, led to achievement of the target being considered feasible. Although the importance of the time of issue in terms of available information is significant, AIReF maintained its assessment of the **sub-sectors' feasibility of complying with the target both in February and April, although the significant information available in April revised the probability of reaching the target set in all Regions upwards, particularly improving the rating for 7 of them.**

In the individual evaluation of the initial 2017 budgets of the Regions the following groups of Regions were distinguished according to the probability of reaching the deficit of 0.6% GDP:

- Very likely for Balearic Islands, Canary Islands and Rioja.
- Likely for Andalusia, Asturias, Castile and Leon, Galicia and Madrid.
- Feasible for Castile-La Mancha, Catalonia and Basque Country.
- Unlikely for Aragon, Navarre and Valencia.
- Very unlikely for Cantabria, Extremadura and Murcia

In relation to the expenditure rule, two groups of Regions were also observed:

- Those whose expenditure trends seemed compatible with compliance with the rule: Andalusia, Asturias, Canary Islands, Castile and Leon, Extremadura, Galicia, Murcia, Basque Country, Rioja and Valencia.
- Those whose expected expenditure trends could compromise compliance with the rule: Aragon, Balearic Islands, Cantabria, Castile-La Mancha, Catalonia, Madrid and Navarre.

Regarding the debt target, as on repeated occasions, its compliance could not be evaluated, so the analysis of each Region was completed with an assessment of the sustainability of its debt path, with very high risks being appreciated in Catalonia, Castile-la Mancha, Extremadura, Murcia and Valencia and high risks in Balearic Islands. In this area, AIReF recommended the

setting of multi-year debt targets, integration with the principle of budgetary stability and the expenditure rule and the comprehensive and differentiated assessment of the starting situation of the different Regions, with special attention to the impact of the financing system and dependence on State financing mechanisms.

## 2. Report on the initial budgets of the Public Administrations for 2017: Local Government (LG) Sub-sector

In this report AIReF confirmed the conclusion made in the report on the main budgetary lines for 2017, estimating LG compliance with the budgetary stability target at the end of the year to be likely, consolidating the results obtained in 2016. The expected consolidation in 2017 of the latest published execution data for 2016 and the possible effect on the execution of financially sustainable investments (FSI) of the delay in the approval of the GSB indicated that the local surplus at the end of this year could be slightly higher than that obtained in 2016.

Regarding compliance with the expenditure rule, AIReF estimated that it was likely for the LG sub-sector to comply with this rule by the end of 2017. The expected margin in compliance with the stability target, of at least 0.6% GDP, would allow compliance with this rule, since the allowed limit does not exceed the computable expenditure.

Regarding the debt limit, according to AIReF estimates, the declining trend would allow a debt-to-GDP ratio of around 2.6% GDP to be reached. In 2016 the LG sub-sector complied with the debt target of 2.9% GDP set for 2017, with AIReF estimating that in 2017 this declining trend will continue, ending the year with a 2.6% debt-to-GDP ratio.

The report on the initial budgets included the individual evaluation of the 16 city councils with a population of over 250,000 inhabitants, as well as the 5 Provincial Councils or similar entities with a larger non-financial budget. There was no risk of non-compliance with the stability target in 2017 in any of the LGs analysed, with the exception of the City Council of Barcelona and the Provincial Council of Valencia.

Regarding the expenditure rule, AIReF estimated that the City Councils of Barcelona, Gijón, Madrid, Palma de Mallorca, Córdoba, Valladolid and the Provincial Council of Seville, the Island Council of Tenerife and the Island Council of Mallorca failed to comply with this rule at the end of 2017.

In the case of the City Councils of Las Palmas de Gran Canaria, Murcia and Valencia, compliance with the stability target and expenditure rule at the end of 2017 could not be assessed, given that they were approving an EFP for non-compliance with the 2016 expenditure rule that established the targets for 2017 and 2018, although compliance with the legal target was considered likely with the current data.

Regarding the debt limit, it was estimated that only the City Council of Zaragoza would present a ratio of outstanding debt to consolidated current revenues above 110% at the end of 2017, so it could not enter into new long-term credit operations this year.

### 3. Report on the macroeconomic forecasts and the main budgetary lines and draft budgets of the Public Administrations: Central Administration and Social Security Sub-sector. 2017 Draft General State Budgets

#### a) *Report on macroeconomic forecasts*

Regarding the report on the macroeconomic forecasts of the 2017 Draft General State Budgets, AIReF, based on exogenous **assumptions and defined policies, endorsed the Government's** macroeconomic forecasts, considering them to be prudent overall. The assumptions that reflected the risks stemming from the external environment, including those regarding the growth of the main partners, the evolution of oil prices and the cost of financing debt and the exchange rate, were considered prudent.

The composition of growth was considered plausible, with Domestic Demand as the driver of the economy, alongside a positive contribution from the External Sector. Of the components of Domestic Demand, private consumption maintained a high growth rate (above 3%), in line with an intense recovery in expenditure and the maintenance of favourable monetary conditions. In turn, the evolution presented for Public Consumption was considered plausible, although with upward risks. On the one hand, the consolidation of the adjustment could begin to generate upward tensions in the execution of certain items. In addition, the evolution of this component essentially depended on the behaviour of the Autonomous Regions and LGs. Therefore, in order for this aggregate to have been maintained at the forecasted levels, it was considered key that these sub-sectors should make these changes, as well as the correct application of the expenditure rule. Regarding Investment, AIReF placed investment in construction at growth rates that were biased downwards and that could be favoured by the consolidation of the recovery of the housing market and the absorption of surplus stock. The contribution of the External Sector was also considered plausible, consolidating itself at a positive level in line with AIReF internal forecasts.

The most recent information at the time of preparing the report entailed lessening the considerations regarding both the risks and the uncertainties relevant to the 2017 forecasts. It was considered that there were upward risks in GDP with respect to the official forecast, essentially stemming from factors that would boost growth in the short term. Regarding the materialisation of the impact of the measures announced at the end of 2016, again, the most recent data pointed to a significant effect on earnings, although effective follow-up throughout the year was suggested in order to assess its sufficiency in line with the targets set and the achievement of the impact estimated by the Government.

*b) Report on the 2017 Draft GSB*

The postponement of the 2016 GSB to April 2017 meant a delay in the issuance of the AIReF report on the main budgetary lines and draft budgets for the CA and Social Security Sub-sectors. In this report AIReF spoke for the first time about the possibility of meeting the 2017 GG target set at -3.1% GDP. Once the information contained in the 2017 Draft GSB regarding the CA and the Social Security Funds (SSF) was assessed, and following the issuance of reports on the initial budgets of the LG and regional sub-sectors, AIReF was able to issue its opinion on the target for the GG.

The 2017 stability target was considered feasible provided that the expected consolidation of the surplus in the LG sub-sector was sufficient to offset possible deviations of the CA and the SSF. The lack of information on national accounting adjustments limited the analysis in the CA. Despite this, compliance with the 2017 target was considered difficult to achieve, mainly due to the uncertainties in the collection of direct taxes. Regarding the SSF, there was also risk of non-compliance despite the growth in contributions, as there were smaller transfers and lower interest from the Reserve Fund. In the case of the Autonomous Regions, no risk of deviation **was observed, mainly because the increase in the financing system's resources would allow the** adjustment of 0.2% GDP needed to reach the target set for 2017.

**BOX 1. REPORT ON THE 2017 DRAFT GENERAL STATE BUDGETS.**

Complying with the 2017 target required a consolidation adjustment of 1.4% GDP, discounting one-off operations with respect to the end of 2016, with the CA being the sub-sector that would have to make the greatest adjustment. AIReF considered that compliance with the target of -3.1% GDP could be feasible provided that the foreseeable deviation of the CA, and to a lesser extent of the SSF, could be offset with the positive margin of the LGs.

The CA had to make an adjustment of 1.7% GDP, the national accounting adjustments that allow reconciliation of the budgetary balance with net lending/borrowing in national accounting terms was not known and information on the CA Agencies in national accounting terms was not included in the GSB, which limited the scope of the analysis carried out. Despite this important limitation, compliance with the 2017 target was difficult to achieve, mainly due to the uncertainties in the collection of direct taxes, and to a lesser extent, due to an insufficient adjustment in expenditure in order to guarantee compliance.

The 2017 Draft GSB envisaged an increase in total tax revenues prior to transfer of 7.9% with respect to the end of 2016. The uncertainty was deemed to be associated with the collection of direct taxes,

essentially Personal income Tax (PIT), however, with respect to Corporate Income Tax (CIT), AIReF foresaw that collection could grow at a rate slightly higher than the 12.6% expected in the GSB if the regulatory measures deployed all their effects. The VAT forecasts were considered realistic and Special Taxes (ST) forecasts were deemed slightly optimistic with regard to AIReF forecasts. Increases in non-tax revenue items were also foreseen, mainly due to the lower adjustment for uncertain collection and the greater investment aid from the EU.

A moderate growth was expected in expenditure, lower than the GDP that contributed to the adjustment to be made. Note the inclusion of the provision for military investments in special defence programmes into the budgetary appropriations for the first time, improving transparency and following the recommendations made by AIReF in various reports. AIReF anticipated an interest expenditure slightly lower than that foreseen in the GSB, maintaining forecasts for the rest of expenditure similar to those included in the GSB. Finally, the smaller transfers to be made to the SSF to meet the needs of the State Public Employment Service (SEPE) were offset with the largest transfers to be made to the Territorial Administrations (TAs). The lack of information on contingent liabilities was also noted, such as, for example, the possible impact of the State's financial liability for toll roads and possible operations related to the recovery and transformation of the financial sector.

Regarding the SSF, it was considered that the total revenues would record a growth of 2.5%, lower than nominal GDP growth and below the forecasts of the 2017 GSB. Despite the strong growth in contributions, the lower transfers received by the SEPE from the CA explained the growth in SSF revenues. In the 2017 GSB contributions grew to 6.8% in the Social Security System and 3.5% in the SEPE. However, AIReF estimates provided for growth to 4.5% in Social Security contributions and to 5% for the SEPE. This increase was explained by the evolution in the number of affiliates, which could have stood above 3%, the increase in the contribution ceilings and floors and the lower reduction in the contributions of unemployed persons.

Non-financial expenditure would maintain moderate growth in 2017, in line with the Draft GSB forecasts. Pensions would be expected to present a growth rate close to 3%, including a revaluation of 0.25%, while expenditure on unemployment benefits would continue to fall. A progressive recovery of the coverage rate is expected, which in March 2017 was higher than that reached in 2016. This moderate growth in expenditure together with the growth of GDP entailed maintaining the downward trend as a percentage of GDP.

Finally, compliance with the debt target was expected, with AIReF's 2017 baseline debt forecast in the CA and SSF of 71.5% GDP, below the target set at 72% GDP, as was compliance with the expenditure rule, since the CA had adopted regulatory measures that could lead to a permanent increase in earnings.

### *1.1.B. Report on the 2017-2020 Stability Programme Update*

In its report on the 2017-2020 Stability Programme Update (SPU), AIReF endorsed the medium-term macroeconomic forecasts. The Report was prepared on the basis of the exogenous assumptions and defined policies, considering these assumptions to be plausible with respect to the forecasts of international organisations and private analysts, as well as the expected evolution of the commodities and government debt markets. The composition of domestic growth was considered plausible, although especially conditioned by the uncertainty associated with the evolution of the external sector (for more details on the analysis of the macroeconomic scenario, see Box 2).



In relation to the budgetary scenario in 2017, AIReF considered it unlikely to reach the public deficit of 3.1% GDP forecast in the SPU for the General Government (GG). The path forecasted in the SPU for the GG implied a consolidation adjustment of 4% GDP in the 2017-2020 period, an adjustment that was considered very demanding when implemented in a scenario with few policy changes **from 2018 onwards. AIReF's projections determined that reaching the deficit forecast in the SPU would be unlikely in 2017, although considering it feasible in 2018 and 2019, and again increasing the risks of non-compliance at the end of the period.**

The report on the 2017-2020 SPU considered that the path of convergence towards the proposed budgetary balance was based on a curbed evolution of expenditure, which was considered feasible, although with upward biases and an optimistic income forecast. The expected evolution for public consumption seemed restrictive, as it surmised a nominal evolution below the reference rate of the expenditure rule and with an effect on all computable **expenditure. This restriction was not consistent with AIReF's forecasts for the evolution of expenditure on healthcare and education for the 2017-2020 period, policies that represent 50% of public consumption. In addition, these risks were largely conditioned by the pressure that population growth could exert on expenditure, which, according to the National Statistics Institute's (INE) forecasts, was considered very modest. In 2017, the impact of the State's financial liability for toll roads and financial aid was included for the first time, which explains the change in rating from feasible to unlikely.**

The revenue forecasts included in the SPU could be upwardly biased with respect **to AIReF's** estimates. The revenue forecast could be considered optimistic as the deviations are concentrated in the evolution of direct taxes. The revenue forecasts in the SPU could have been upwardly biased based on a modest cyclical gain in the main revenues (in line with the latest evidence and AIReF forecasts). It was considered probable that, despite the favourable macroeconomic cycle and the evolution of the labour market, revenues would end up being lower than the budgetary projections in the SPU.

The distribution of targets among the different sub-sectors envisaged in the SPU was not considered realistic. AIReF considered that the local surplus was not recognised in the process of setting budgetary stability targets and the absence of a realistic analysis of the financial situation of the SSF could lead to the risk of non-compliance with the budgetary stability target and the necessary adoption of measures for some sub-sectors.

The debt path included in the SPU is consistent with the debt targets approved for the 2017-2019 period. The 2017-2020 SPU includes a declining government debt-to-GDP ratio throughout the period, with an accumulated adjustment of 6.9% GDP, above AIReF's baseline forecasts. Although descending and sustainable, the evolution of debt envisaged in the SPU does not allow compliance with the 1st Transitional Provision (TP) of the LOEPySF. The debt-to-GDP ratio forecasts in the baseline



scenario simulated by AIReF confirm that only the LG sub-sector will reach the reference value foreseen in the 1st TP, while the rest of sub-sectors and the GG would not reach it in the next 20 years.

## BOX 2: ANALYSIS OF THE 2017-2020 STABILITY PROGRAMME UPDATE.

The section on the analysis of the macroeconomic scenario of the 2017-2020 SPU is divided into two parts. The first is focused on the evaluation of the biases in the macroeconomic forecasts from previous years (ex post evaluation) and the second on the analysis of the current forecasts (ex ante evaluation). The limitations in the information provided by the forecasting panels mean that the analysis of ex-ante biases is limited to the annual horizon  $T$ ,  $T + 1$ . However, the multi-year nature of the SPUs allows a more extensive analysis of ex-post biases, up to  $T+3$ .

In the ex post analysis it can be observed, using the last four SPUs, how the GDP forecasts have been systematically exceeded by the observed data, with the error increasing as the time horizon extends. The marked loss of accuracy in the forecasts for  $T+2$  and  $T+3$  and the prudent/optimistic cyclical bias is also identified for domestic demand. Public consumption stands out in particular due to its pattern of continued underestimation. Meanwhile, in the external sector the Government's forecasts do not show signs of over or underestimation, although this result hides a different behaviour at the level of its components, especially for  $T+2$  and  $T+3$ . Finally, the pattern of deterioration in the forecasting accuracy as the time horizon increases and the prudent/optimistic cyclical bias is also present in the fiscal forecasts, especially on the expenditure side.

The second part of the analysis is focused on the ex ante analysis of the macroeconomic and budgetary scenario, paying special attention to the risks that affect it. The main aim is to evaluate the realism of the assumptions and to define a more likely or prudent scenario.

AIReF indicates that the forecasts of the macroeconomic scenarios presented by the Government in the Draft SPU have used the most up-to-date information available, including the latest short-term indicators, as well as from the end of the 2016 budget year. However, very little public information is available on the methodologies and parameters underlying the Government's forecasts.

The main conclusions of the ex ante analysis of the forecasts of the Draft SPU are as follows:

- Real GDP forecasts show progressively decreasing growth rates in the first two years of the programme, which stabilised at 2.4% in the last two years. This result is conditioned by a more moderate contribution from domestic demand than that observed in 2016 and a positive contribution from external demand throughout the forecasting horizon, standing at around 0.3% per year.

- The expenditure growth forecast is expected to be in line with that of real GDP growth, with rates around 0.2 - 0.3% lower, which would indicate an increase in the apparent productivity of the labour factor.
- In nominal terms, the evolution of public consumption is contained, even more than what is required by the application of the expenditure rule. This containment is given by the moderate nature of real expenditure and the corresponding implicit deflator.
- As for the balance of risks, the direction of change is different in the short term (slightly upwards) and in the medium term (downwards). In the short term, the dynamism shown by both national demand for private and public consumption and by exports could be maintained throughout 2017, implying a growth in economic activity slightly greater than that predicted by the Government. In the medium term, however, downside risks prevail, mainly due to the possibility of a less favourable evolution than that surmised in the external environment.

**The revenue forecasts in the SPU could have a be upwardly biased with respect to AIReF's estimates.** It is considered probable that, despite the favourable macroeconomic cycle and the evolution of the labour market, revenues will end up being lower than the budgetary projections in the SPU. Reaching the declining trend of non-financial expenditure foreseen in the SPU is considered feasible, albeit with a different composition among the expenditure headings, mainly in public consumption and in interest. The expected evolution for public consumption seemed restrictive, as it surmised a nominal evolution below the reference rate of the expenditure rule and with an effect on all computable expenditure. **This restriction was not consistent with AIReF's forecasts for the evolution of expenditure on healthcare and education for the 2017-2020 period, policies that represent 50% of public consumption. In 2017, the impact of the State's financial liability for toll roads and financial aid is included for the first time, which explains the change in rating from feasible to unlikely.**

The distribution of targets among the different sub-sectors envisaged in the SPU was not considered realistic. AIReF considered that the local surplus was not recognised in the process of setting budgetary stability targets and the absence of a realistic analysis of the financial situation of the SSF could lead to the risk of non-compliance with the budgetary stability target and the necessary adoption of measures for some sub-sectors.

### *1.1.C. Report on the expected PA compliance with the 2017 targets*

AIReF considered it feasible, albeit difficult to achieve, that the General Government (GG) would reach the deficit target of 3.1% GDP in 2017. The new information provided by the Government, mainly relating to the **deferral to 2018 of the impact foreseen for 2017 of the State's financial liability for toll roads**, made it possible to improve once again the forecast of compliance with the stability target with respect to AIReF's latest opinion. This judgement of feasibility rested on the expected adjustment in non-financial expenditure, which, with growth well below GDP, would be compatible with compliance with the expenditure rule.

In CA it was considered very unlikely that the target of -1.1% GDP would be met, concentrating mainly on direct taxes and, in particular, PIT. Although a closure of -1.5% GDP **was estimated in Government's first notification** to the European Commission under the Excessive Deficit Procedure, this forecast was still below AIReF's baseline scenario. To meet the target set for 2017, the CA would have to make an adjustment of above 1.4% GDP compared to the end of 2016. With the information contained in the Draft GSB it was considered unlikely that this sub-sector would comply with the target. The assessment of this sub-sector worsened in the following months due to the following: the impact on the State of the Accord of the Mixed Commission on the Economic **Agreement with the Basque Country of May 17 for which a State debt of €1.4 billion is recognised** for the quota settlements from 2011 to 2016 and the increase in the amount of the final settlement of the regional financing system of 2015 that has meant a decrease in the **resources of the CA of about €1.2 billion.**

It was considered very unlikely that the SSF stability target of -1.4% GDP would be met. Despite the fact that a much more realistic target has been set than in previous years and the good performance of earnings from contributions, the lower transfers received by the SEPE from the CA and the growth of pension expenditure renders achievement of the expected adjustment impossible. In this sense, in the first notification sent to the European Commission of March 31 the Government had already announced a deficit **forecast of 1.6% GDP in line with AIReF's forecasts.**

AIReF estimated it to be likely that the regional sub-sector would comply with the 2017 stability target (-0.6% GDP). Compliance required an adjustment of 0.2% with respect to the closing figure recorded in 2016 (-0.8% GDP). Taking **into account the 6.6 billion increase in the financing system's resources, the good evolution of the rest of revenue and the possible compliance with the expenditure rule that arose from the closure forecasts communicated by the Regions and AIReF's estimates, compliance with the regional target was considered likely.** AIReF considered that 12 of the 17 Regions could achieve their stability target, increasing the probability of compliance for all Regions with respect to the previous Report.

In the LGs it was estimated that maintenance or even exceedance of the surplus level recorded in 2016 was likely. The acknowledgement of a debt owed by the CA for quota settlements from previous years in favour of the Provincial Councils and the delay in the approval of this year's GSB where financially sustainable investments are authorised could generate a somewhat higher financing capacity of the LG sub-sector than that recorded in the previous year. However, a reduction in the aggregate surplus by almost 40% was expected for the 16 large city councils with over 250,000 inhabitants, confirming the change in trend that started in 2016 and the difference in their behaviour with respect to the rest of the sub-sector entities. The report included information from 32 city councils with a ratio of outstanding debt to current revenues of over 75% and sustainability problems, which presented negative results in the non-financial budgetary balance, in the cash surplus, in the average payment period and in terms of compliance with the obligations to supply information.

Regarding compliance with the debt target, the GG debt-to-GDP ratio forecasted for 2017 by AIReF in this report was in line with the target set at 99%. The baseline forecast in the CA and SSF was 71.8% GDP, slightly below the target set at 72% GDP. The Regions were expected to comfortably comply with the debt targets despite the risks to debt sustainability and the expected limit of 13% GDP at a much later date than 2020. The LG sub-sector could also reach a debt-to-GDP ratio of around 2.6%.

### BOX 3: REPORT ON THE EXPECTED COMPLIANCE WITH THE 2017 STABILITY, DEBT AND EXPENDITURE TARGETS

#### Regarding the CA:

- Compliance with the stability target was considered highly unlikely. AIReF forecasts showed a possible risk of deviation in tax collection, mainly in direct taxation which, alongside the expected evolution of non-tax revenue, made it very unlikely to reach a sufficient level of revenue. The main tax uncertainty lies in direct taxation and especially in PIT, with growth slightly below nominal GDP, a trend that will continue until the end of the year, standing at around 6.5% GDP. Earnings from CIT are expected to grow at a very high rate with the projected year-end figure for 2017 being 2.1% GDP, an increase of 0.2% GDP with respect to 2016, but subject to uncertainties stemming from the new tax reforms. Non-financial expenditure maintains its declining trend due to drops in significant items such as public consumption, interest expenditure and transfers between PAs resulting from the reduction in the State's transfers to the SEPE and a growth of the rest of transfers below GDP, although other expenditure such as investment aid or social transfers not in kind present important growth rates due to the bank restructuring process and the growth of expenditure on civil servants, respectively.
- CA compliance with the expenditure rule in 2017 is possible, both due to the general containment of computable expenditure and due to the permanent regulatory changes adopted.

In the SSF, it was considered that in 2017 the Social Security System would maintain a deficit similar to that of 2016, as the improvement in contributions, although important, would be partially offset by the lower interest income from the Reserve Fund. This resulted in total revenues that increased less than expenditure. The increase in expenditure was mainly concentrated in spending on pensions and Temporary Disability benefits. For the SEPE, a surplus similar to that of 2016 was estimated, as a result of contributions that would grow above expectations and unemployment benefits that would continue to fall until they reached levels similar to those recorded before the crisis at the end of 2017.

#### For the regional sub-sector:

- Compliance with the 2017 stability target at year-end was considered highly likely. The final settlement of the financing system in 2015 and the new information available increased

the probability of all the Regions complying with the target at year-end and, in the case of Andalusia, Asturias, Cantabria, Castile and Leon, Extremadura, Galicia and Navarre, meant an improvement over the last assigned rating. The analysis made in the report differentiated two groups of Regions:

- 12 Regions in which it is estimated that the target could be met with a different degree of probability:
  - Very likely: Andalusia, Asturias, Balearic Islands, Canary Islands, Galicia and Rioja
  - Likely: Castile and Leon and Madrid
  - Feasible: Catalonia, Castile La Mancha, Navarre and the Basque Country
- 5 Regions in which it is estimated that the target set might not be achieved with different degrees of probability:
  - Unlikely: Extremadura, Cantabria, Aragon and Valencia
  - Very unlikely: Murcia

On the other hand, some uncertainties remained that affect the 2017 deficit, stemming from both the regularisation of the arrears amounts for the Basque Country quota and from the compensation of part of the 2016 excess deficit for the Regions adhering to the 2016 Regional Liquidity Fund (FLA).

- Regarding the expenditure rule, in general, an improvement was observed in the fulfilment of information obligations by the Regions for its calculation, although it was considered that uncertainties still persisted in regard to the elements necessary for its calculation. A risk of non-compliance was detected in 4 Regions and a very difficult to achieve compliance was detected in a further 4. At the sub-sector level, it was considered that the expected evolution of expenditure could be compatible with compliance with the expenditure rule.

For the LG sub-sector it was considered very likely that the target would be met and a surplus similar to that of 2016 would be reached, and likely that the expenditure rule would be complied with. The 16 city councils with a population of over 250,000 inhabitants were analysed individually, as well as the 5 Provincial Councils or similar entities with a larger non-financial budget. Of the 21 LGs analysed only the City Councils of Alicante, Las Palmas de Gran Canaria, Vigo and Seville presented no risk of non-compliance with the fiscal rules in 2017. As a new feature, this report also included an initial summary assessment of the 32 city councils with over 5,000 inhabitants that presented sustainability risks and negative results in any relevant economic-financial indicator.

#### *1.1.D. Reports on the establishment of individual 2018-2020 budgetary stability and government debt targets for the Autonomous Regions*

**AIReF considered the Ministry of Finance and Public Function's (MINHAFP) proposal to set equal stability and debt targets for all Regions in 2018 to be adequate.** The MINHAFP submitted a proposal for budgetary stability and government debt targets for the Regions in the years 2018 to 2020, uniform for all and equal to those of the sub-sector (-0.4% in 2018, -0.1% in 2019 and 0.0% in 2020). As in

previous years, AIReF focused on the year 2018, given the increase in the degree of uncertainty over time, considering the proposal to set equal targets for all Regions to be adequate, as it was considered feasible for all Regions to reach the targets according to the indicators analysed.

Using the synthetic feasibility indicator, AIReF estimated that achieving the target of -0.4% in 2018 would only require an effort from the Regions of Extremadura, Murcia, Valencia and Aragon. According to the feasibility indicator, used in previous reports, it was considered that effort would only be required for those four Regions as the target would be feasible to achieve, although more difficult in the case of Murcia.

Coinciding with the conclusions of the MINHAFP proposal, however, AIReF provided considerations on the arguments used, making recommendations. AIReF recommended that the proposal presented should:

- Highlight the restriction implied by the application of the expenditure rule for many Regions.
- **Include the estimation of the financing system's resources for the** horizon envisaged in the proposal, as well as its distribution by Region.
- Include a 2017 closure forecast.
- Include an explanation of the methodology and criteria underlying the establishment of a deficit target of 0.4% GDP for each Region as well as the consideration of the feasibility of this target.
- Specify the exception clause for the debt targets, delimiting the exceptions that allow the initial targets to be rectified at the end of the year.

AIReF also recommended that, in successive proposals, a medium-term debt sustainability analysis should also be included.

#### *1.1.E. Report on the macroeconomic forecasts of the 2018 Draft Budgetary Plan*

In its report on the macroeconomic forecasts of the 2018 Draft **Budgetary Plan**, **AIReF endorsed the Government's macroeconomic** scenario, considering it to be realistic overall. The basic assumptions underlying the government's macroeconomic scenario were considered feasible and reflected balanced risks from the external environment.

**AIReF considered the Government's estimate** of the impact of the uncertainty in Catalonia to be prudent, although it indicated the existence of additional downside risks. The growth forecasts in the Draft

Budgetary Plan included an upward revision in 2017, but anticipated a significant downward correction for 2018, due to the situation of political and institutional uncertainty in Catalonia, whose impact was estimated to be between 0.3% and 0.4% GDP. In this way, the estimated impact of the uncertainty shock would last a limited amount of time. This view is considered prudent, especially given the complexity of the estimate, although there were notable additional downside risks stemming from a longer duration of the uncertainty shock, as well as the idiosyncratic deterioration of economic activity in Catalonia, with negative overflow effects on the rest of Spain (see Box 4 for more details on the impact analysis of the shock arising from the situation of political and institutional instability in Catalonia).

On the other hand, the ex post analysis of forecasts for previous years identified an important bias in the Public Consumption forecasts for the 2013-2016 period. The use of observed values for the evaluation of all forecasting biases confirmed the conclusions of previous reports, namely the existence of a significant bias in public consumption forecasts for the year immediately following ( $t + 1$ ), which have been outside the interquartile range and also have not been justified by a better ex post result throughout the last 4 years.

#### BOX 4: SUMMARY OF THE REPORT ON THE MACROECONOMIC FORECASTS OF THE 2018 BUDGETARY PLAN UPDATE.

This report, which has the same structure and methodology as the macroeconomic forecast of the 2017-2020 Draft SPU, evaluates the macroeconomic forecasts associated with the 2018 Budgetary Plan Update, with a dual focus on macroeconomic forecasts, namely the ex post evaluation of the biases in **previous years'** forecasts and the ex ante analysis of the realism of the forecasts referred to in the 2018 Budgetary Plan Update.

**The ex post analysis of previous years' forecasts identifies an important bias in the Public Consumption forecasts for the 2013-2016 period.** The use of observed values for the evaluation of all forecasting biases confirms the conclusions of previous reports, namely the existence of a significant bias in public consumption forecasts for the year immediately following ( $t + 1$ ), which have been outside the interquartile range and also have not been justified by a better ex post result throughout the last 4 years.

Regarding the ex ante analysis, the basic assumptions underlying the macroeconomic scenario for 2017 and 2018 are considered feasible, with respect to the forecasts of international organisations and the evolution of the commodities and debt markets. Specifically, the assumptions of more expansive growth among the main trade partners, stable oil prices, appreciation of the Euro exchange rate and a prudent assessment of the interest rate curve.

Regarding the estimation of the impact of the disturbance from the uncertainty surrounding the situation in Catalonia, the report considers the **Government's estimates to be prudent and identifies downside risks.** AIReF's evaluation is based on an estimate of the scope of the shock, in two



dimensions: a common component that affects the Spanish economy as a whole, and an idiosyncratic component of the Catalan economic activity. The impact analysis of the common uncertainty shock for 2018 implies a significant downward correction to GDP growth, as well as an associated deterioration of public finances. The impact of the common uncertainty shock in 2018 is tentatively estimated to be between 0.4% and 1.2% GDP, depending on the degree of permanence of the stressed scenario. In turn, this effect would lead to a deterioration of the budgetary balance (between 0.2% and 0.5%) through lower revenues and the denominator effect of GDP. This deterioration in public finances could jeopardize compliance with the deficit foreseen in the 2018 DBP (2.3% GDP, 0.1% above the EDP target set), reducing its feasibility. In addition, the idiosyncratic component associated with the disruption in Catalan activity has an additional negative impact through spillover effects detrimental to the rest of the Regions, given its deep integration with the rest of the Spanish economy, as well as its high relative weight. The inherent difficulty in calibrating (measure of the extent) this disturbance requires close and periodic monitoring of the short-term regional indicators. Ad hoc exercises point to spillover effects on GDP or expenditure in line with the weight of the Catalan economy in the Spanish economy (20% of the

### *1.1.F Report on the main budgetary lines and draft budgets of the Public Administrations: 2018*

The non-presentation of the 2018 Draft GSB in due time caused the Report on the main budgetary lines and draft budgets of the PAs to be published in a fragmented way, only issuing opinions on the Regions and LGs, although an interim assessment was made of the GG. As in the preparation of the 2017 budgets, the 2018 budgets were altered by the carry-over of the 2017 GSB, which made it impossible to issue the corresponding Report on the main budgetary lines of the 2018 budgets of for the GG and the CA and SSF sub-sectors. However, the report on the regional sub-sector contained an interim assessment of the forecasts of the Budgetary Plan with the purpose of offering an overview of the PAs, in which it was concluded that it would be feasible to achieve the deficit of 2.3% GDP foreseen in the 2018 Budgetary Plan, but the revenue forecast is unlikely.

Regarding the regional sub-sector, preparation of the report was marked by a scenario of uncertainty caused by the impact of the non-presentation of the Draft GSB on 2018 instalment payments and the **impact of Catalonia's political situation on economic growth**. In the report on the sub-sector as a whole, AIReF established in its baseline scenario that the political and institutional *shock* in Catalonia would have a short-term resolution, and that the Regions would receive the financing **system's resources communicated in July**. The individual in-depth analysis of Catalonia was carried out in a subsequent report.



AIReF considered it feasible for the sub-sector as a whole to meet the 2018 stability target under the assumption that the Regions would receive the instalment payments communicated by the MINHAFP in July. In the baseline scenario, it was considered feasible for the sub-sector as a whole to meet the 2018 stability target of -0.4% GDP and 14 Regions would also comply with the target with different degrees of probability.

Regarding the expenditure rule, AIReF indicated that its achievement could be more demanding than the stability target in 12 Regions, with risks of non-compliance in half. Regarding compliance with the debt target, AIReF envisaged general compliance.

In relation to the LG sub-sector, AIReF considered it very likely that it would comply with the 2018 budget stability target, as it would be feasible to obtain a surplus similar to in 2016, of around 0.6% GDP. The data received indicated that, in 2018, the LGs could achieve a surplus similar to that of recent years, thanks to income guaranteed by municipal taxes with a high yield and expenses contained by the application of the expenditure rule. This surplus would allow the LG sub-sector to comply with the expenditure rule.

In 2018 AIReF forecasted that the LG sub-sector could reach a debt-to-GDP ratio of around 2.3%. AIReF estimated that the path of debt reduction would continue, therefore if the local surpluses continue to be consolidated, the debt-to-GDP ratio in the local sub-sector could stand at around 2.3% GDP at the end of 2018.

#### BOX 5: REPORTS ON THE MAIN BUDGETARY LINES OF THE 2018 BUDGETS OF THE REGIONS AND LGs

In the individual analysis of the Regions, under the assumption that the resources of the Regional Financing System (RFS) were those communicated in July, the following groups were distinguished:

- Very likely for Balearic Islands, Canary Islands and Rioja.
- Likely for Galicia and Asturias.
- Feasible for Andalusia, Aragon, Cantabria, Castile La Mancha, Castile and Leon, Catalonia, Madrid, Navarre and the Basque Country.
- Unlikely for Extremadura and Valencia.
- Very unlikely for Murcia.

In addition to this analysis, AIReF assessed several alternative scenarios regarding the probability of achieving the stability target in terms of the RFS resources that the Regions could receive in 2018, as well as on the impact of a hypothetical longer duration of the crisis in Catalonia.

Regarding the expenditure rule, AIReF pointed out that the better fiscal position of the Regions contributes to making this rule more demanding than the stability target, which alongside the lack of conformity between both fiscal rules, made the risks of non-compliance with the expenditure rule high. AIReF identified two groups of Regions:

- Those whose expenditure trends seem compatible with compliance with the rule: Aragon, Canary Islands, Cantabria, Catalonia, Castile La Mancha, Extremadura, Navarre, Rioja and Valencia.
- Those whose expected expenditure trends could compromise compliance with the rule: Andalusia, Asturias, Balearic Islands, Castile and Leon, Galicia, Madrid, Murcia and the Basque Country.

Regarding the debt target, despite the fact that the 2018 targets needed to measure compliance at the end of the year were not available, regional compliance was expected given the broad definition of these targets.

As regards the LGs, this Report included the differentiated evaluation of the 21 major LGs (the 16 city councils with a population of over 250,000 inhabitants and the 5 Provincial Councils or similar entities with a larger non-financial budget) and the rest of the sub-sector.

In 2018, of the 21 LGs analysed, there was only a high risk of non-compliance with the stability target in the City Councils of Murcia, Palma de Mallorca and Valencia, and moderate risk in the City Councils of Barcelona, Bilbao, Vigo and Gijón. However, the 2017 closing forecasts highlighted the risk of non-compliance with some fiscal rules in all the LGs analysed, except Seville, Alicante and Vigo. At the end of 2018, all of these entities estimated their debt to current income ratio to be below 110%.

For the rest of the Local Corporations (LCs), it was estimated that in 2018 and 2017 they would continue to have a positive contribution to the surplus of the local sub-sector. Despite these favourable net results, the need to give visibility to the situation of the LGs in which it is not sufficient to verify compliance with annual fiscal rules, as these do not guarantee their future sustainability by themselves, caused AIReF to highlight the need to deepen this sustainability analysis that began in December of 2016.

For this individual medium-term sustainability analysis, the 18 LCs with over 20,000 inhabitants with very high values in the following indicators were selected: ratio of outstanding debt to current income as an indicator of the sustainability of financial debt, negative cash surplus as an indicator of short-term solvency and the average period of payment to suppliers as an early warning of arrears in commercial debt. AIReF rated the City Councils of Algeciras, Almonte, Aranjuez, Cuenca, Granada, Isla Cristina, Sanlúcar de Barrameda and Valdemoro as at moderate risk of medium-term sustainability, and those of Jerez de la Frontera, Alcorcón, Parla, Jaén, Gandía, La Línea de la Concepción, San Andrés de Rabanedo, Totana and Navalcarnero as high risk, focusing on the analysis of their structural sustainability.

For these 9 high risk city councils, AIReF prepared a file for each LC that contained a comparison of its situation with the average of the LGs as a whole, the average of the LGs of its Region and the average of the municipalities of its population section, in indicators of financial sustainability, income/expenditure position per capita, comparative income, budgeted and settled expenditures and balances, budgetary stability trends and computable expenditure in the expenditure rule.

## 1.2. REPORTS ON THE APPLICATION OF THE PREVENTIVE, CORRECTIVE AND COERCIVE MEASURES OF THE LOEPySF

### 1.2.A. *Reports on the Economic-Financial Plans of the Autonomous Regions.*

AIReF reported on the Economic-Financial Plans (EFP) presented by eleven Regions in 2017 due to non-compliance with the 2016 budgetary stability target and/or the expenditure rule. AIReF reported on the Plans presented in 2017 prior to their approval by the Fiscal and Financial Policy Council (CPFF) in accordance with the regulations governing budgetary stability and financial sustainability. Failure to comply with the 2016 fiscal rules obligated the Regions of Catalonia, Cantabria, Valencia, Aragon, Extremadura, Castile La Mancha, Murcia, the Basque Country, Galicia, Andalusia and the Canary Islands to submit an EFP in 2017, the first seven for non-compliance with the deficit target and the last four for non-compliance with the expenditure rule and, in the case of the Murcia, for non-compliance in both. No Region failed to meet the debt target in 2016.

The reports on the EFPs were issued based on the receipt of complete information and, except for reports from the Basque Country and Castile La Mancha, were issued alongside the individual report of expected compliance with the 2017 targets. Nine of the eleven reports on the EFPs of the Regions were issued on 19 July, together with the individual report of expected compliance with the 2017 targets for these Regions, as both assessments were made at the same time. This was the case of Andalusia, Aragon, Canary Islands, Cantabria, Catalonia, Galicia and Valencia. However, some EFPs were presented and reported on in advance, such as those of Extremadura (June 26) and Murcia and Basque Country (6 and 7 July, respectively). However, the reports on the EFPs of Extremadura and Murcia have been subsequently updated alongside the issuance of the individual report of expected compliance with the 2017 targets for these Regions as a result of the new drafts of these EFPs following the submission of relevant information (data on RFS resources to be received in 2017 and revision of the deficit limits and expenditure rule for 2018). Finally, on 23 November, a report was issued on the EFP of Castile La Mancha, which was presented as a result of the data from the MINHAFP Report on compliance with the fiscal rules of **October 2017, unlike the presentation of the rest of Regions' EFPs** which resulted from the April Report of that year.

### 1.3. OPINIONS

#### 1.3.A. *Opinion on the determination of the 2017 Pension Revaluation Index*

AIReF must issue an opinion on the values calculated by the Ministry of Employment and Social Security (MEYSS) for the determination of the Pension Revaluation Index (PRI) in each year (Consolidated Text of the General Social Security Law). AIReF has to determine if the values used to calculate the PRI included in the 2017 Draft GSB are realistic and if the formula for calculating the PRI is applied correctly.

The approval of the GSB in April 2017 meant that the issue of the PRI Opinion was delayed until July. Although the 0.25% update was established in a Royal Decree applicable from the beginning of the year, it was not until the approval of the GSB that the MEYSS published and provided the necessary information to calculate the PRI.

**AIReF's analysis** concluded that the minimum increase of 0.25% in 2017 had to be applied to contributory pensions, as referred to in the Law on the 2017 General State Budgets. There was a substantial improvement in the transparency of the information provided by MEYSS. For the first time, and as stipulated by the current regulations, the Draft GSB included the information necessary for calculating the PRI in the Economic-Financial Report for Social Security. In addition, the MEYSS sent AIReF more detailed data for these series and an analysis of the sensitivity of social contributions to the macroeconomic environment. Although its content should be more detailed, given the expected **evolution of the pension system's revenue and expenditure in the medium term, the method** applied by the MEYSS is considered to be adequate for estimating the PRI with ceilings applicable in 2017.

For 2017, the revenue forecast fell outside the confidence intervals of **AIReF's models, while the expenditure estimates were considered** more realistic. However, as the projection period progressed, the likelihood of the officially projected revenue growth materialising increased. In terms of deficit, the MEYSS forecast was considered very unlikely in the 2017-2018 period, although the relative optimism with respect to **AIReF's models decreased towards 2022.**

The opinion included methodological changes with respect to previous years. The document was accompanied by a statistical annex featuring the technical **improvements introduced into AIReF's model for calculating PRI.** Regarding the method used in previous editions of the Opinion, the use of series of the number of registrations and cancellations and of the respective average pensions for each type of pension, as well as a more refined calculation of the substitution effect, were noteworthy.

#### BOX 6: OPINION ON THE DETERMINATION OF THE 2017 PRI

- The MEYSS estimated a theoretical PRI (outside the legal limits) of **-3%, consistent with AIReF's** estimates. A PRI for 2017 of -3.5% was obtained by applying the MEYSS resolution method but with the values projected by AIReF. Likewise, considering AIReF forecasts and an iterative resolution method without taking into account the thresholds defined by Law, the PRI computed for 2017 would be 2.9%. In all cases, the PRI obtained was close to -3% and lower than the 0.25% referred to in the regulation as the minimum increase applicable to Social Security contributory **pensions and civil servants' contributory pensions**.
- Some improvements to the information used were proposed, such as: the publication of the macroeconomic assumptions used, consideration of the annual average of the number of pensions instead of the figure as at December 31, the publication of the methodology for calculating the substitution effect in the past and its future projection or publication of the method for resolving the circularity of the formula.
- From the information provided by the MEYSS, there was an implicit adjustment in the SSF balance slower than that established in both the SPU and in the approved stability targets. The income path of the MEYSS was considered very unlikely in 2017 and 2018. Then the forecasts gradually **become more realistic, converging towards AIReF's baseline forecast towards the end of the period**. Expenditure forecasts were **below AIReF's estimates and were considered unlikely**, mainly due to the evolution of the number of pensions that was also considered very unlikely, (with growth rates systematically lower than those obtained through the method proposed by AIReF and outside the 20-60% confidence intervals for 2018-2022)

#### *1.3.B. Opinion on the application of the formula for calculating the contribution rate for cessation of self-employment benefits for the self-employed*

AIReF did not detect medium-term risks regarding the financial sustainability of the cessation of self-employment benefit for the self-employed. Once the revenue and expenditure linked to this benefit had been analysed, in the Opinion it was concluded that expenditure was lower than current earnings and it would be necessary to increase the contribution rate.

The minimum contribution rate of 2.2% was considered applicable for 2017. Regulations establish a contribution ceiling of 4% and a floor of 2.2%, which was included in the Law on the GSB for 2017. The result of applying the formula was 0.26%, a much lower contribution rate, therefore, than the one set by the Budgetary Law.

#### BOX 7: OPINION ON THE APPLICATION OF THE FORMULA FOR CALCULATING THE CONTRIBUTION RATE FOR CESSATION OF ACTIVITY.

- The benefit for cessation of activity of self-employed workers was created in 2010 to protect this group against the risk of total and involuntary cessation of activity. Self-employed worker can choose to subscribe to this protection system. As it is voluntary it is financed exclusively through contributions paid into the protection system specifically for this contingency. The protection includes an economic benefit and the payment of Social Security contributions for common contingencies and temporary disability. The amount of the benefit is 70% of the average contribution base for the 12 months prior to the cessation of activity, with a cap applied to the Multiplier for the Public Income Index (IPREM) in line with the dependants in each case. The duration of the benefit depends on the length of time during which the worker has paid contributions and on their age. The protection period is determined by taking into account the contributions paid during the 48 months prior to the cessation of self-employment of which 12 must be continuous and immediately prior to the cessation.
- The aim of this Opinion is to analyse both the application of the formula for estimating the 2017 contribution rate by the Ministry of Employment and Social Security and the financial sustainability of the protection system for cessation of activity.
- The data published by the Social Security System shows that the percentage of affiliates to the Special Regime for Self-employed Workers (RETA) who choose to contribute to the cessation of activity benefit has reduced since 2013 and with greater intensity since 2015. For its part, the collection of contributions for cessation of activity has reduced as a result of the lower number of contributors.
- Expenditure on the cessation of activity benefit increased until 2016 and was much lower than earnings. However, in April 2017 expenditure on the cessation of activity benefit was below the expenditure of previous years and still well below the level of earnings, which allows the accumulation of reserves to continue. In the period analysed, there was a reduction in the number of benefits requested and recognised. The recognition rate remains at 42.5%, relatively low compared to the recognition rate of other system benefits.

### 1.4. STUDIES

#### 1.4.A. *Study on the Government Owned Enterprises and Regional Public Foundations of Cantabria"*

The Government of Cantabria asked AIReF to carry out a study on regional public enterprises and foundations in Cantabria. Article 5 of Organic Law 6/2013 of 14 November, establishing AIReF, empowers the Authority to prepare studies, which may be requested by the National Government, the CPFF, the National Commission

for Local Administration, the Financial Commission for Social Security, the Autonomous Regions and LCs. AIReF accepted the assignment and proceeded to prepare the study in full autonomy, defining the methodology, the objective criteria and the specific aspects to be assessed.

The aim of this study, the first entrusted to AIReF by a public administration, was to analyse and evaluate the restructuring of the Regional Public Enterprises and Foundations, in order to avoid duplication and reduce the costs of the regional public structure. In its preparation, especially for the collection and processing of information, staff from the Cantabria Institute of Finance (ICAF) collaborated directly under AIReF's coordination. Likewise, it was necessary for the Corporations included in the study, as well as the corresponding supervisory bodies, to collaborate and provide information. The results of the Study will be published in 2018, once the mandatory authorisation from the Government of Cantabria has been received.

#### *1.4.B. Study on the concession contract granted for the construction and operation of the road "Eix Transversal (C-25)"*

In 2017, AIReF received a second request for a study regarding the concession contract granted for the construction and operation of the "Eix Transversal (C-25)" road, which was the first to be delivered by the institution. In a letter of 9 June, 2017 from its Vice President and Head of the Department of Economy and Finance, the Government of Catalonia asked AIReF to carry out a study on the overall impact on deficit and debt of the unilateral decision of early termination of the concession contract granted to CEDINSA for the construction and operation of the road "Eix Transversal (C-25)". AIReF prepared the study in full autonomy in accordance with the provisions of Organic Law 6/2013, unable to accept instructions on the performance of the work or its content.

The purpose of the study was to assess the direct budgetary repercussions, both in terms of flows (deficit) and stock (debt), associated with the early termination of the concession contract **related to the construction and operation of "Eix Transversal (C-25)"**, proposed by the Government of Catalonia. For its assessment, AIReF divided the study into five main sections:

- First, a complete methodological review is carried out.
- Second, AIReF examines the existing obligations and rights from which an economic impact is derived in the scenarios compared.

- Third, an audit of maintenance and replacement costs is carried out, taking the current state of the infrastructures and existing equipment as a starting point.
- Fourth, monetary flows are analysed through the development of a model that enables the different simulated scenarios to be compared (early termination versus normal termination). This section is completed by a sensitivity analysis related to the main economic-financial assumptions.
- The fifth section presents the impact analysis in terms of National Accounts, **highlighting the operations with an effect on the Catalan Government's deficit and debt**. Finally, the main results and conclusions regarding the potential impact on deficit and debt of the simulations regarding the early termination of the contract for construction and operation of the C-25 are presented and the main latent risks identified are summarised.

From the analysis of financial flows, results favourable to the option of early termination (and reversion) were concluded, although it should be noted that both scenarios are subject to great uncertainty. The reversion option obtains favourable results compared to the current situation, in terms of net present value (NPV) when considering the complete time horizon of the concession (until 2040). In addition, regarding the deficit and debt impact, using criteria included in ESA 2010 the reversion scenario would imply a significantly higher deficit initially (2017) although more favourable from the second year, in such a way that in the baseline scenario 2024 is the point of break-even or equalisation of the deficit in accumulated terms. From then on, the reversion option becomes favourable, reaching cumulative savings, in terms of deficit, of around 0.2% regional GDP at the end of the concession period. In terms of debt, the break-even point is beyond 2020. As of that year, the reversion option entails a lower level of debt for the Catalan Government, with a faster amortisation of the total stock of the operation.

#### *1.4.C. Spending Review*

AIReF was commissioned by the Government to carry out an in-depth review of the expenditure of the GG with the aim of identifying possible inefficiencies and duplications. The AIReF will work jointly with the Ministry of Finance and Public Function and the other Spanish Ministries and PAs. This collaboration is considered fundamental given the current high degree of decentralisation of expenditure in Spain. The aim is to conduct a comprehensive analysis of public expenditure in different phases, to ensure that this analysis is exhaustive.



## BOX 8: SPENDING REVIEW PROCESS

The Budgetary Plan update sent to the European Commission on 9 December 2016 included the commitment to perform a Spending Review on the PAs as a whole, in order to improve their efficiency. AIReF would be entrusted with carrying out this analysis, relying, in all aspects where it is necessary, on the collaboration of external resources.

Subsequently, in the 2017-2020 SPU sent in April 2017, it was specified that this comprehensive analysis of public expenditure would be carried out in different phases in order to ensure that it was exhaustive. The first phase would cover the subsidies and public aid provided by the different PAs. It was also pointed out that AIReF would work jointly with all Spanish PAs. Subsequently, the commission became a multi-year process, covering the next three years. The first task chosen was to review the expenditure on subsidies. Subsequent agreements shall identify new areas of action.

From the date of communication of the assignment, AIReF held meetings with the representatives of the Regions and the Ministries with the most relevant budget allocations in subsidies, in order to develop an "Action Plan" that, taking into account the structure and number of Spanish Administrations, ensures the maximum level of participation and active involvement from the start both of the Regions and the General State Administration (GSA). During these meetings, agreements were reached on the subsidy lines that would be subject to evaluation and the type of evaluation to **be carried out in each case. The Action Plan has been designed taking into account the Eurogroup's** common principles for "Spending Reviews" on firm and lasting political commitment, the design and implementation, monitoring and communication, and coherence in budgetary planning.

In August 2017, AIReF presented its Action Plan for the review of expenditure on subsidies for the GG to the Ministry of Finance and Public Function, which consists of seven projects:

- Strategy and Procedure Evaluation;
- Medication dispensed through prescription;
- Active employment policies;
- University education scholarships;
- Promotion of talent and employability in R&D+i;
- Strengthening business competitiveness;
- Sociedad Estatal Correos y Telégrafos, S.A.

The results of this first review must be presented before the end of 2018. \*\*

\* On 2 June 2017, the AIReF received the assignment from the Council of Ministers to draw up an Action Plan for the review of expenditure on subsidies.

\*\* On January 26, 2018, the Council of Ministers approved the Action Plan for reviewing expenditure on subsidies.

### 1.5. WORKING PAPERS AND OTHER PUBLICATIONS

AIReF published three working papers, which serve as technical support to the analysis contained in the reports and opinions. Their publication allows for greater transparency in the work carried out within the institution:

- Working Paper 1/2017. **Non-linear modelling of Spain's GDP**. Ángel Cuevas and Enrique M. Quilis.
- Working Paper 2/2017. **What are we talking about when we speak of Public Consumption?** Raquel Losada.
- Working Paper 3/2017. **A Game-Theoretic Analysis of the Spanish System of Regional Finance**. Federico Geli and Enrique M. Quilis.

Publication of the economic focus section also began, which allows AIReF to channel the results of its research work in a direct and accessible format, although without losing rigour. Using simple language and with graphic support, this publication, not published on a regular basis, aims to answer specific questions of current relevance for budget stability and financial sustainability, as well as contributing to improving the quality of the debate on these topics. In 2017, one document was published: Foco Económico 1/17: Why has the response of fiscal income to the economic cycle lessened?

In addition, a methodological note was published:

- Methodological Note MN 1/17: **Real-time forecasting model for Catalonia's economy** (MIPred Cat). Ángel Cuevas and Enrique M. Quilis.

In addition, AIReF periodically published information related to the sustainability of public finances. With the aim of increasing transparency and contributing objective elements to the debate on the sustainability of public finances, AIReF posts various publications on its website that are periodically updated within the general approach of disseminating the methods and principles used in the framework of its mandate:

- AIReF DataLab. Set of interactive platforms that allow data on the main economic and sustainability indicators of the Regions to be viewed and downloaded.
- Government Debt Monitor. Published on a quarterly basis, this focuses on a series of key indicators for analysing the sustainability of public finances, for the different sub-sectors of the PAs.

- **Real time GDP forecasts** Forecast of quarterly GDP growth for both the current quarter and the following quarter. This forecast is based on a combination of short-term information, issued at different frequencies (quarterly and monthly), using a dynamic factor model. In the last quarter, the publication of the results of a real-time forecast model of **Catalonia's GDP growth began**.
- **Integrated forecasts of the macroeconomic scenario** Both for the current quarter and for the next quarter, it reflects the estimated GDP growth at the same time as the growth of its components from the demand side: private consumption, public consumption, investment in equipment, investment in construction, exports and imports of goods and services. The scenario is completed with expenditure forecasts.
- **Economy thermometer** Synthetic assessment of the cumulative direction of the surprises recorded by the GDP forecast model in real time.
- **Regional Quarterly GDP Estimate** This reflects the quarterly GDP estimate for the Regions through the methodology called METCAP (Methodology of Quarterly GDP Estimation by Region), which combines three types of statistical information available for regional analysis: monthly data for disaggregated short-term indicators of territorial scope, annual data compiled in national accounting terms by the Spanish Regional Accounts and, finally, the estimates for the nation as a whole published by the Quarterly National Accounts.
- **Quarterly budgetary stability target monitoring** Since March 2017, AIReF began publishing its monthly assessment of the probability of the PAs complying with their budgetary targets. In the monitoring files, the probability of compliance with the deficit targets and the revenue and expenditure trends is assessed and seasonality and volatility are considered, once the national accounting data of each of the sub-sectors is known. The assessment includes the monitoring of the main tax figures in cash terms that reflect the evolution of the PIT before transfer to the TAs, CIT, VAT before transfer, Special Taxes before transfer and social contributions to the Social Security System.
- **Simulators** This section provides the public with a series of simulation instruments and tools that have been developed as a complement to the reports, opinions and technical documents published regularly by AIReF. In this section, interaction with the user is promoted through the analysis of practical cases, allowing them to design scenarios with personalised assumptions and dynamics.



## 2. Monitoring of reports and opinions

The administrations that receive the AIReF recommendations are subject to the principle of "comply-or-explain". In the performance of its functions, AIReF may make recommendations to the administrations that receive its reports, which are obliged to either follow the recommendations or explain the reasons for deviation **therefrom. The "comply or explain" principle is the key tool available to AIReF to fulfil its remit.**

Through the application of this principle, a constructive and transparent dialogue has been consolidated between AIReF and the administrations receiving the recommendations. With the approval of Resolution 14/2015, AIReF established communication channels with the competent PAs in order to follow up on the recommendations it makes in its reports. Thus, when an administration expresses its intent to not comply with the recommendations, it provides explanations on the reasons for its deviation and, in turn, the AIReF expresses its opinion on whether or not there are clear grounds for these reasons. In 2017 AIReF continued with the quarterly publication of the monitoring of recommendations on its website. All this dialogue is contributing to enriching and providing transparency to the fiscal debate among the PAs.

Throughout 2017, it has become clear that there is a general commitment from administrations to comply with this principle. During 2017, the PAs in **general, have responded to AIReF's requirement by stating their intention to comply or explain the reasons for deviation from the recommendations made.** Only five administrations did not promptly respond to AIReF's recommendations in any of the reports, although the number of administrations that did not respond during the year has decreased and, in the last quarter, all complied with the principle.

In the reports issued in 2017, AIReF made 95 recommendations, 77 regarding the subject of the report and 18 for scope limitations. Most of **these recommendations were the result of the AIReF's analysis in the exercise of its mandate.** However, AIReF also made recommendations aimed at remedying the shortcomings detected in the relevant and necessary information for AIReF to issue its opinion on the subject of the report. Part of the limitations stemmed from shortcomings detected in previous years that remain unresolved, such as the lack of information in national accounts or information relevant to the evaluation of the expenditure rule.

REPORTS	Recommendations on scope limitations	Recommendations on subject of the report	Opinion proposals	Guidelines for good practice	TOTAL
Report on the macroeconomic forecasts of the 2017 budgets of the Autonomous Regions	-	2	-	2	4
Report on the Macroeconomic Forecasts in the 2017 Draft General State Budgets	-	1	-	-	1
Report on the main budgetary lines and initial budgets of the Public Administrations 2017: Autonomous Regions	7	-	-	-	7
Report on the main budgetary lines and draft budgets of the Public Administrations: 2017 Draft GSB	5	4	-	2	11
Report on the initial budgets of the Autonomous Regions for 2017	6	-	-	-	6
Report on the initial budgets of the Public Administrations: Local	13	2	-	-	15
Report on the update of the Stability Programme of the Kingdom of Spain 2017-2020	2	3	-	3	8
Report on the Economic-Financial Plans of the Autonomous Regions	7	2	-	1	10
Report on expected PA compliance with the budgetary stability targets, government debt targets and expenditure rule	16	2	-	1	19
Report on the establishment of individual 2018-2020 budgetary stability and government debt targets for the Autonomous Regions	5	1	-	-	6
Report on the macroeconomic forecasts of the 2018 Draft Budgetary Plan	1	1	-	2	4
Report on the main budgetary lines of the 2018 budgets of the Autonomous Regions	8	-	-	2	10
Report on the main budgetary lines of the Local Corporations: 2018	7	-	-	-	7
Opinion on the determination of the 2017 PRI	-	-	4	-	4
Opinion on the application of the formula for calculating the contribution rate for cessation of self-employment benefits for the self-employed in 2017	-	-	2	-	2
Total	77	18	6	13	114

## Recommendations on the subject of the report

	Recipient	Competent administration
Central Administration	5	-
Ministry of Finance and Public Function		42
Social Security	2	
Ministry of Economy and Competitiveness		1
Ministry of Employment and Social Security		2
Autonomous Regions as a whole	15	1
Local Governments as a whole	13	
One or several Autonomous Regions	23	23
One or several Local Governments	15	13
All Public Administrations	6	

## Recommendations on scope limitations

	Recipient	Competent administration
Central Administration	5	-
Ministry of Finance and Public Function	-	14
Social Security	1	
Ministry of Economy and Competitiveness	-	3
INE	1	1
Autonomous Regions as a whole	4	-
Local Governments as a whole	4	-
One or several Autonomous Regions	2	2
All Public Administrations	2	-

On the one hand, the recommendations made were of general scope to improve the fiscal framework and, on the other, of a specific scope for compliance with the fiscal rules at year-end. The former were addressed to the Central Government and the intent was to obtain amendment of the existing procedures and, therefore, a permanent change in the fiscal framework, such as improving the transparency and consistency of fiscal rules or establishing permanent preventive control procedures. The second

type of recommendations were addressed to specific administrations in which risks of non-compliance with the fiscal rules were identified, with the pretence that they adopt the necessary actions to achieve the targets at the end of the fiscal year, therefore the effect pursued was achieved in the year 2017 itself.

### Classification by competent body to apply the proposed measure

Competent administration	Recommendations on subject of the report	Recommendations on scope limitations	Opinion proposals	Guidelines for good practice	TOTAL
MINHAFP	38	13	-	3	54
Ministry of Economy, Industry and Competitiveness	1	1	-	6	8
Ministry of Employment and Social Security	-	-	6	-	6
MINHAFP and Ministry of Employment and Social Security	2	-	-	-	2
MINHAFP and Ministry of Economy, Industry and	-	1	-	-	1
INE and Ministry of Economy, Industry and Competitiveness	-	1	-	-	1
MINHAFP and all Autonomous Regions	1	-	-	-	1
MINHAFP, Provincial Council of Biscay, Galicia and Asturias	1	-	-	-	1
Autonomous Regions as a whole	-	-	-	2	2
To one or several Autonomous Regions	22	2	-	2	26
To one or several Local Governments	12	-	-	-	12
Total	77	18	6	13	114

There are four main lines of recommendations made by AIReF. The recommendations formulated by AIReF in 2017 were mainly aimed at: (i) strengthening the early correction of deviations (preventive control), (ii) improving the definition and application of fiscal rules, (iii) encouraging medium-term planning and (iv) increasing transparency.

- i) Strengthening the early correction of deviations (preventive control). **One of AIReF's main lines of recommendation** is related to its function of ex ante control of compliance with fiscal rules. As in previous years, in 2017 AIReF has requested the MINHAFP to activate the preventive measures of the LOEPySF for those Autonomous



Regions with a high risk of deviation at year-end. Apart from this specific measure, AIReF recommended strengthening monthly budgetary execution controls for the early correction of possible deviations, involving the General Interventions Boards of the Regions to alert, where appropriate, the regional government on the need to adopt measures and the MINHAFP so that it can implement a monthly follow-up of the adopted tax measures in the CA.

The Regions committed to compliance and many assured that they already had internal procedures for monthly monitoring. On the contrary, the MINHAFP has deviated from the recommendations on the grounds that it was not necessary to activate the LOEPySF measures for the Regions (at that time, the coercive measures were already being applied) nor to implement any follow-up of the tax measures in the CA (given that the information published monthly was sufficient to carry out an adequate control).

However, AIReF does not share the MINHAFP's explanations and considers that it would have been advisable to activate the measures to advance the application of the corrective measures, given that it is very unlikely that the Regions to which this recommendation was addressed would meet the stability target at year-end. Likewise, it is very unlikely that the CA's forecast of income from the adopted tax measures will be met, which negatively affects the year-end figures.

- ii) Improving the establishment and application of fiscal rules. A significant number of the recommendations made by AIReF in 2017 were aimed at improving the establishment of the stability target, the debt target and the expenditure rule, in order to make fiscal rules more consistent, transparent and suitable for achieving budgetary stability and financial sustainability, as well as for solving the problems detected at the time of their application in practice. In particular, the following are noteworthy:
- In relation to the stability target, it was recommended that the MINHAFP should incorporate expenditure requirements, the sufficiency of income and the expenditure rule into the process of distributing the budgetary stability target among the different levels of government. In the regional sphere, it was recommended that MINHAFP should include fundamental information for analysis into the proposal for the regional distribution of stability targets.
  - Regarding the debt target, the MINHAFP was once again requested to review the 1st Transitional Provision of the LOEPySF in order to establish realistic paths of convergence towards the reference debt levels established in article 13 of the LOEPySF. In the regional sphere, it was recommended to design a system for establishing regional debt targets that would fulfil the function of control of EDP indebtedness and to define the exceptions that allow the initial targets to be rectified.

At the local level, it was recommended to define the debt limit that would operate at the individual level and whose non-compliance would result in the application of the measures foreseen in the LOEPySF.

- Regarding the expenditure rule, it was recommended that MINHAFP should create working groups within the Fiscal and Financial Policy Council and the National Commission of Local Administration to reflect on and discuss possible changes to the expenditure rule as well as the regulatory development needed to solve the specific issues surrounding its application in practice. On the other hand, the MINHAFP was urged to incorporate the calculation of the expenditure rule into the information that the LGs communicate on the main budgetary lines and approved budgets.

In general, the MINHAFP has deviated from the recommendations because it considers that compliance is not necessary, or because it understands that there is already a detailed procedure for the establishment of targets in the LOEPySF and sufficient **information is published on the Ministry's website for their monitoring, or because it** considers that the information provided by the local intervention board on compliance with the expenditure rule at year-end is already sufficiently useful. However, it has undertaken to comply with, or at least explore, the recommendations regarding the incorporation of relevant information into the proposal of individual regional stability targets, the definition of the exceptions to the debt targets and the review of the debt reduction path provided for by law so that it is realistic. Likewise, it has indicated that the working groups on the expenditure rule are already holding meetings, although it has stated that any reform of this rule is subject to the changes that could derive from possible amendments to European regulations.

AIReF reiterates the need to ensure coherence in the system of fiscal rules to ensure its effectiveness and to adopt a comprehensive vision when analysing the fiscal discipline framework.

- iii) Encouraging medium-term planning. Within the medium-term perspective, which AIReF believes should guide fiscal policy, the recommendations have been aimed at making the application of the LOEPySF more effective and realistic. For this reason, MINHAFP has been asked, as in previous years, to provide a realistic fiscal consolidation path for the Regions with very unlikely compliance with their targets, allowing medium-term planning agreed with the MINHAFP that will subsequently be reflected in their EFPs. In this same line and for the EFPs to be a essential element of medium-term budgeting, the MINHAFP was recommended to review the calendars and deadlines for their preparation and approval. On the other hand, the MEYSS was recommended to continue the necessary actions to guarantee the financial equilibrium of the Social Security System within the framework of the Commission on the Toledo Pact.

The MINHAFP has departed from the recommendations to apply the LOEPySF with a medium-term perspective, arguing that this possibility is not provided for in the law itself. However, in the field of Social Security, there is full agreement with the recommendation made and with continuing to work within the framework of the Commission on the Toledo Pact, which is the framework foreseen to achieve this target.

iv) **I**ncreasing transparency. AIReF made numerous recommendations with the aim of providing greater transparency to the implementation of fiscal policy:

- On the one hand, recommendations aimed at providing visibility to national accounting adjustments were made. It was recommended to include these adjustments in the GSB as well as the information on the non-public entities that are included in the Central Administration sub-sector for the purposes of ESA 2010. Likewise, the INE was urged to ensure internal consistency in the annual and quarterly National Accounts estimates as part of the development of the macroeconomic scenario associated with the Draft GSB Law, in line with its practice until 2014.
- On the other hand, the recommendations made in previous years on the need for the Stability Programme and the Budgets of the different PAs to include all the necessary information to corroborate the consistency between the macroeconomic and budgetary scenarios and evaluate the adequacy of the budgetary stability targets, debt targets and expenditure rule and the sufficiency of the commitments adopted by each of the PAs were reiterated.
- Finally, some specific recommendations were made regarding the TAs: inclusion by the Regions of adequate and sufficient information on the debt targets in their 2018 budgets and the publication of the models and parameters used in their macroeconomic forecasts; the periodic update by the MINHAFP of the economic-financial information of the LGs published on its website; the publication of all the necessary data for verifying compliance with all fiscal rules at the LG sub-sector level and at the individual level; and the publication of the annual meetings of the financial protection bodies of the LGs

The MINHAFP departed from the recommendations, arguing mainly that the available information is already sufficient. On the contrary, practically all of the Regions complied with the recommendation to include information for the verification of the debt target in their 2018 budgets and they committed to publish the basis of their macroeconomic forecasts. The INE, on the other hand, after qualifying that in no case is there an inconsistency in the annual and quarterly estimates, committed to further reduce this period for the next year as long as the necessary sources are available.

AIREF does not share the explanations of the MINHAFP and insists on the need to provide the relevant elements to carry out the legally required analysis and improve the transparency of the implementation of the fiscal framework.

Individual recommendations aimed at compliance with targets at year-end. During 2017, AIREF made individual recommendations to the Regions and LGs mainly aimed at compliance with the fiscal rules at year-end. In particular, the recommendations ranged from monitoring expenditure execution and exploring margins in tax measures to adjusting initial budgets to the EFPs in force at the local level.

The response of the TAs has been mostly favourable towards complying with the recommendations. However, the Regions expressed a greater commitment than the LGs that, on occasion, did not recognise the existence of a risk of non-compliance and, therefore, consider that it is not necessary to follow the recommendations.

The effectiveness of most of the recommendations undertaken by the PAs will be verified in 2018. In the case of the TAs that have received recommendations to comply with their fiscal rules at year-end, their effectiveness will be seen in 2018 with the publication of the compliance data for the previous year. Regarding the recommendations addressed to the Central Government, it will be possible to verify general compliance throughout 2018, for example, when preparing the proposal for the distribution of regional targets for the 2019-2021 period.

#### Classification of recommendations, proposals and guidelines by topics

Topics	Recommendations on subject of the report	Recommendations on scope limitations	Opinion proposals	Guidelines for good practice	TOTAL
Budgetary stability	27	2	-	-	29
Financial sustainability	11	-	-	-	11
Expenditure rule	13	1	-	-	14
Budgetary procedures	2	-	3	5	10
Application of the LOPR-CE	20	3	-	-	23
Transparency	4	12	3	8	27
TOTAL	77	18	6	13	114

In addition to the recommendations, AIReF has made 6 proposals in the Opinions issued and 13 guidelines on good practices, which are not subject to the "comply-or-explain" principle. In 2017, AIReF issued two Opinions, one legally required, on the determination of the 2017 Pension Revaluation Index (PRI) and another on its own initiative, on the application of the formula for calculating the contribution rate for cessation of self-employment benefits for the self-employed. The proposals issued in the aforementioned Opinions were intended for MEYSS in order to improve transparency and procedures for calculating the PRI on the one hand and, on the other, to reduce the pro-cyclical behaviour of the formula for calculating the contribution rate for cessation of self-employment benefits for the self-employed. Moreover, AIReF proposed the use of good practices in the field of fiscal policy, most of which were related to the improvement of transparency in the management of public resources. Neither the proposals nor the guidelines for good practice are subject to the principle of "comply-or-explain".

#### Guidelines for good practice

	Recipient	Competent administration
Central Administration	6	-
Ministry of Finance and Public Function	-	3
Ministry of Economy, Industry and Competitiveness	-	6
Autonomous Regions as a whole	4	2
One or several Autonomous Regions	2	2
All Public Administrations	1	-

In detail, all the recommendations, opinion proposals and guidelines for good practice are included in the Annex "Monitoring of reports and opinions"



## 3. Institutional activity

### 3.1. INSTITUTIONAL RELATIONS

In 2017, AIReF continued its intense institutional activity both nationally and internationally. In accordance with Organic Law 6/2013 and the 2017 Action Plan, **AIReF's President** appeared before the Congress of Deputies on several occasions. In the international sphere, the AIReF's President, in his capacity as Chairman of the Network of EU Independent Fiscal Institutions (IFI), continued to promote the network's activity and, in particular, its leading role in the debates on the future of the EU's fiscal governance framework.

**As in previous years, AIReF's President appeared** before Congress and the Senate to explain compliance with the fiscal targets for 2016 and 2017 and the macroeconomic scenario. In 2017, the AIReF's President appeared twice before the Congress' Committee on Budgets and once before the Senate's Committee on Budgets and, for the first time, appeared before the Congress' Committee on Economy, Industry and Competitiveness. In this way article 24 of the Organic Law establishing AIReF, indicating that the President must appear, at least once a year, before the competent committee of the Congress and Senate, was complied with in 2017. In his appearance before the Congress' Committee on Budgets on April 6, AIReF's President analysed the 2016 closing budget and stressed that, despite the economic recovery and the reduction in interest rates, there was still a structural deficit that did not ensure debt sustainability, for which a realistic and credible medium-term budgetary plan was necessary. He also stressed that a regulatory reform was necessary to improve the framework of budgetary discipline and fiscal rules. On April 26, AIReF's President appeared once more before the Congress' Committee on Budgets, in this case, to analyse the 2017 Draft GSB. The main message was that AIReF considered compliance with the deficit target to be feasible but demanding for all PAs in 2017. However, he stressed that the feasibility of complying with the stability target rested on the assumption that the probable deviation of the CA and, to a lesser extent, of Social Security, could be offset by the high surplus recorded by the local sub-sector.

Subsequently, on May 10, AIReF's President appeared before the Congress of Deputies' Commission of Economy, Industry and Competitiveness for the first time where he presented the Details of the Report on the Macroeconomic Forecasts of the 2017-2020 SPU. He assured that AIReF deemed it feasible that the Spanish economy would record a growth of 2.5% until 2020, thereby maintaining the basic equilibrium of the economy. Finally, on June 8, he appeared before the Senate's Committee on Budgets to report on the 2017 Draft GSB.

For the first time, the President appeared before the Committee on the Toledo Pact to explain the outlook for pensions and employment to present the analysis of the proposed minimum income law. In his appearance before the Committee for Monitoring and Assessing the Agreements of the Toledo Pact of February 8, AIReF's President analysed the situation of Social Security, stressing that the structural imbalance of the sub-sector would be maintained until the beginning of the next decade. He also highlighted the need to deepen the analysis of the parametric reforms already put in place in order to assess their effects as well as the analysis of the different factors that affect the pension system in order to define and understand the existing uncertainty. In addition, he appeared before the Congress on November 14 to present AIReF's analysis of the proposed minimum income law, highlighting the great significance of the measure given its redistributive and fiscal effects. The President noted, among other things, that it would be advisable to perform a comprehensive analysis of the proposal that included a study of the international evidence, an analysis of the current national and regional programmes and a prospective estimation of the proposed law and some of its amendments.

AIReF held meetings with representatives from the PAs and, especially, within the Autonomous Regions. Unilateral contact was had with all Regions, in addition to holding face-to-face meetings with the governments of Aragon, Balearic Islands, Cantabria and Extremadura. In June, AIReF held the First Conference on Regional Economics and Sustainability, which brought together the main economic and **budgetary leaders of the Autonomous Regions. On this day, AIReF's technical staff and the President shared the institution's methodology** with the guests. In addition, in the same month, AIReF organised an AIReF-Regions Technical Conference focused on the draft Spending Review. AIReF's President was also a speaker at the seminar on "Regional financing, budgetary stability and welfare", organised by the Instituto Valenciano de Investigaciones Económicas (IVIE - Valencian Institute of Economic Research) in collaboration with the Government of Valencia, and at an event organised by the Cercle D'Economia of Mallorca and the Ministry of Finance and PA of the Balearic Islands, where the issue of fiscal governance in a decentralised state was addressed. In addition, he participated in the meetings and working groups of the CPFF. Regarding relations with the General State Administration, meetings were held with different departments and various technical and managerial levels.

AIReF also continued to attend meetings with academics and participate in specialised courses and forums for researchers and journalists at the national level. AIReF's President attended as a speaker at the Economic and Social Council, at the 5th National Forum of Small Auditing Firms, where he spoke about the challenges of public policies, at the Association for the Progress of Management (APM) debating on financial sustainability, the Association of Economists of



Aragon, where he focused on "The sustainability of public accounts" and the Second conferences on control and auditing in the local public sector to comment on AIReF's view on the financial situation of the LCs. Alongside the Menéndez Pelayo International University and the Government of Cantabria, AIReF organised the course "Tax Governance in Decentralised Countries", attended by several national and international experts on tax matters, and attended by AIReF's President in the opening and closing sessions. The President also participated in the economics course on "The fourth revolution. How does the digital agenda affect the economy and the industry? ", organised by the Asociación de Periodistas de Información Económica (APIE - Association of Economic Information Journalists). In addition, AIReF staff spoke and participated in various national and international forums. Finally, meetings continued to be held on macro-fiscal issues co-organised with the Bank of Spain.

In 2017, AIReF consolidated its international activity at the individual level and as a member of the EU's IFI network. On an individual basis, it is worth noting the organisation of the International Conference of Economic Policy Councils. Following the proposal of the President of the German Council of Economic Experts, AIReF hosted the second regular meeting that gathers the main economic advisers at an international level. This was attended by the chairs and members of the German Council of Economic Experts, Conseil d'Analyse Économique de France, Parliamentary Budget Office of Canada, Economic Council of Japan (Cabinet Office), Economic Council of Finland, Dutch CPB, Irish IFI (IFAC) and the Chair of the EFB. The main issues addressed by the experts were the phenomenon of globalisation at the international level and the particular challenges facing the European Union. In relation to the expenditure review project, international contacts were maintained in order to learn about and learn from other similar experiences. In particular, there were exchanges with the French Court of Auditors, the Italian Ministry of Economy and Finance as well as representatives of the European Commission. In addition, AIReF has maintained its usual technical collaborations with other IFIs, notably those requested by Austria, Malta or the Korean IFI this year. The President has participated in international forums such as the first Conference on public finances organised by the Irish IFI (IFAC), focused on the analysis of fiscal risks, or the seminar on Public Finances of Lisbon on structural fiscal reforms organised by the Bank of Portugal.

At the level of the EU's IFI network, José Luis Escrivá was re-elected as Chairman of the network for two more years and was invited to the European parliamentary week. In January, the network was invited to participate in the Inter-Parliamentary Conference on Stability, Economic Coordination and Governance in the EU. José Luis Escrivá spoke as Chairman of the Network alongside Valdis Dombrovskis and Antonio Tajani, in the plenary session of the European Parliament focused on *"The Fiscal Compact as part of National Economic Policy Making"*. In November, the Network's management positions were renewed, with José Luis Escrivá re-elected as Chairman for a further two years. Giuseppe Pisauro

(President of the Italian Parliamentary Budget Office - UPB) was appointed as Vice-Chairman and Michal Horváth, former member of the Slovak IFI, as Secretary, a newly created position. As in 2016, the Network met four times. Two at the network level, one in Madrid, and two at the level of the Committee on European Union Affairs. The activities in 2017 (see box 9) notably include the launching of a regular publication that is expected to be useful for all those interested in monitoring fiscal news, the creation of a working group on the output gap or the debates on the design and functioning of the European fiscal framework in a year in which the Commission has presented various discussion papers and even legislative proposals, such as the proposal for a Directive to strengthen fiscal responsibility. In 2017 the collaboration between the IFI network and European organisations and the OECD continued to be strengthened.

#### BOX 9: ACTIVITY OF THE EUROPEAN UNION NETWORK OF INDEPENDENT FISCAL INSTITUTIONS (EUIFIs) IN 2017

In 2017, in a context of reflection on the fiscal governance of the EU, the EU's IFI Network has intensified dialogue with the EU institutions, by attending the European Parliament for the first time. An active presence has been maintained in international forums and new initiatives have been launched. The consolidation of the network has been reflected in the re-election of its Chairman and the creation of a permanent Secretary. In November, the Network adopted an agreement appointing AIREF's President as Chairman of the Network for two additional years and the President of the Italian Parliamentary Budget Office (UPB), Giuseppe Pisauo, as the new Vice Chairman to replace the representative of the Slovak IFI, L'udovit Ódor.

- Internal meetings: as in the previous year, two Network meetings and two meetings of its European Affairs Committee were held in 2017:
  - **Meeting of the Network's European Affairs Committee in Brussels (February).**
  - Network meeting in Edinburgh (April).
  - **Meeting of the Network's European Affairs Committee in Brussels (June).**
  - Network meeting in Madrid (November).
- **Meetings and exchanges with other EU institutions: the network's Chairman was invited to participate in the plenary session of the Inter-parliamentary Conference on Stability, Economic Coordination and Governance in the EU. He held meetings with Directorate-General for Economic and Financial Affairs (DG ECFIN) and with the European Fiscal Board (EFB) and with the representatives of the EU's Economic and Financial Committee (EFC):**
  - Participation in the plenary session of the Inter-parliamentary Conference dedicated to analysing the "The Fiscal Compact as Part of National Economic Policy Making".
  - Participation in the sixth meeting of the EFB in preparation of its annual report.
  - Participation in the 6th and 7th meetings of the EU network of IFIs (EUNIFI) with DG ECFIN.

- Participation in the annual meeting with EFC representatives.
- Meeting with the Chairman of the EFC.
- Meetings with DG ECFIN team.
- The network's publications and initiatives: the new initiatives for 2017 notably include the following:
  - Launching of a new regular publication, the European Fiscal Monitor, where each IFI summarises the situation, perspectives and fiscal challenges of their country twice a year.
  - Creation of a working group on the estimation of the output gap and structural balance.
  - Seminar on medium-term budgetary frameworks, organised by the UPB.
  - Follow-up on the practical application of the **“comply-or-explain” principle**
- Participation in events: During 2017, the Network participated in events organised by other academic and international institutions:
  - Joint seminar between IFIs and central banks, organised by the ECB (Frankfurt, October) on the challenges and prospects of fiscal governance in the Euro area.
  - Economic Forum "True Economic Talks" organised by the Center for Economic Studies of the Private Sector of Mexico.
  - Seminar on the role of fiscal policy for sustainable economic growth, co-organised by the European Commission and the Malta Fiscal Advisory Council.
  - 9th meeting of the Network of Parliamentary Budget Officials and IFIs, held by the OECD in Edinburgh (April)

### 3.2. COMMUNICATION ACTIVITIES

AIReF continued to strengthen its position as a benchmark in terms of sustainability and preventive control of public finances. The Authority has positioned itself as a source of necessary reference when addressing the issues of financial sustainability and the stability of public finances. AIReF forecasts are especially taken into account in the field of the evolution of the national economy and are particularly relevant when they affect the economy of the Autonomous Regions and the main LGs.

The main aim of AIReF's communication strategy is the dissemination of the reports that the Authority must prepare in accordance with its regulations, as well as **the recommendations issued with these reports, which are governed by the principle of “comply-or-explain”**

During 2017, it is also worth highlighting the effort made by the institution to increase its public presence and disseminate the new work carried out by the technical team in both the media and with other target audiences such as academics

and reference institutions in the economic world.

The institution used different channels to achieve maximum dissemination, such as meetings or *briefings* with the media and the issuance of press releases and briefing notes, individual meetings with journalists and opinion leaders, publication of all the news on the website, sending the news by email to different institutions and interest groups and the use of social networks.

Moreover, in 2017 a new channel was opened to disseminate the contents produced by the institution's technical and managerial team, such as *Foco* or the publication of opinion pieces in the media.

In total, 477 pieces were published on the website in 2017. Of these, 101 correspond to news and coverage of activities, which results in an increase of 87% compared to 2016. The rest are **publications directly related to AIReF's activity, such as Reports, Opinions, Working Papers or documents that reflect the operation of the institution and fulfil AIReF's interest in providing maximum transparency to its activity.**

**AIReF's presence in the** media also continued to increase in 2017. The data, analyses and opinions disseminated by AIReF were a key reference when addressing the issues of budgetary stability and sustainability of public finances in the media and in the academic field. The qualitative analysis shows that in 2017 a very smooth relationship with the media was consolidated, based on bi-directional communication. The media responded with wide coverage **of the institution's publications, whilst also requesting more information.** Quantitatively, this was reflected in over 7,115 impacts in the written press in 2017, 6.8% more than in 2016, and over 18,520 in online press, representing an increase of 21.7% with respect to 2016. During 2017, the coverage of the institution provided by the audio-visual media was expanded. It is increasingly common for channels such as RTVE, Antena 3, La Sexta, Cuatro and Tele Cinco to include coverage of AIReF reports and publications.

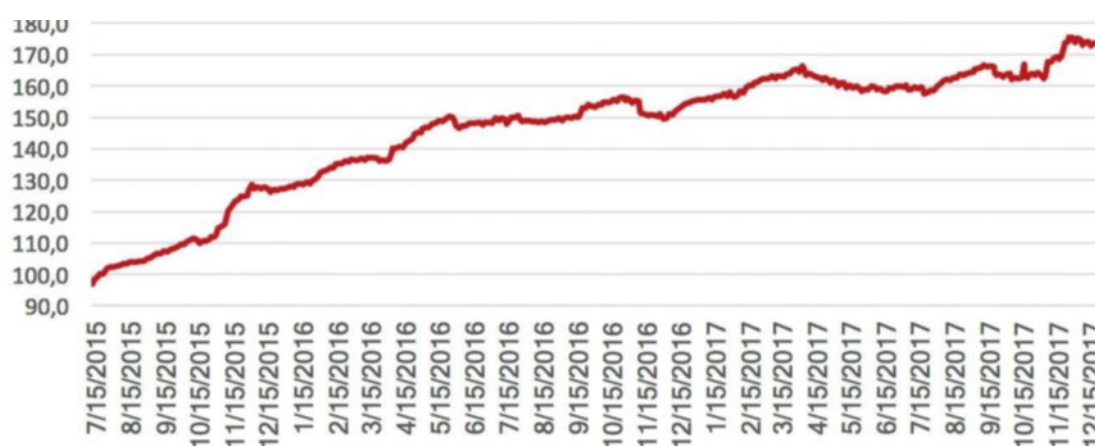
In 2017, the AIReF completed three years of history. The newspaper *El Mundo* published a comprehensive report on its tasks, its trajectory and its challenges for the future. The report was published in the weekly newspaper dedicated to the economy: "Mercados". The piece was also disseminated through the online version of the newspaper in several items of news published during the week. In the digital version it was possible to access a complementary video that included images recorded at the AIReF offices and fragments of the interview with José Luis Escrivá.

The website continued to be the main point of reference in the communication strategy. Data from Google Analytics shows an outstanding growth in the main Key Performance Indicators (KPI) of the dissemination activity, as can be seen in the table below. Activity data for the AIReF website showed an increasing trend in all parameters measured. An increase of over 50% in the number of pages visited by each user compared to 2016 was recorded. The number of pages visited during each session also registered a more than significant increase with respect to the previous year; almost 40%. The continuous increases in the **number of website users and website sessions confirm users' growing interest in the content published.**

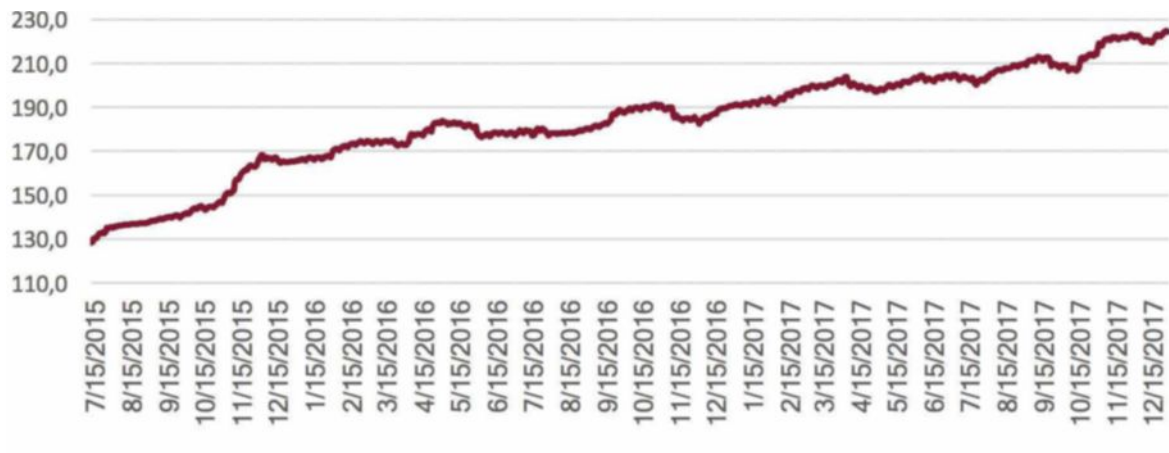
### Website indicators

	2015	2016	2017	Inter-annual variation 2016 -2017
Website users	26,163	29,538	36,040	+13.42%
Website sessions	62,400	71,148	82,771	+9.10%
Page views	249,203	279,061	454,004	+52.3%
Pages/session	3.99	3.92	5.49	37%

### 2017 Mobile Media USERS



### 2017 Mobile Media SESSIONS



Social networks gained greater importance as one of AIReF's dissemination channels. Website activity also intensified as a reaction to the dissemination of content published through social networks. The most interactive channel was Twitter, which ended the year with 1,251 followers, an increase of 68% over the previous year. On LinkedIn, followers increased by 62.69%, to 218 followers. This increase places AIReF as one of the IFIs with the largest number of followers on social networks compared to its European and international counterparts. In addition, we must point out the high quality of AIReF followers on social networks, including the main experts in matters of sustainability of public finances, politicians in charge of economic issues, qualified professionals in topics of macroeconomic analysis and statisticians, as well as journalists who cover this type of content in the Spanish media.

Finally, in July 2017, the institution began to issue information through monthly newsletters aimed at subscribers interested in their activities. The number of subscribers grew by 16% until the end of 2017 (388 subscribers) compared to 2016 (326 subscribers).

## 4. Access to information

Access to information in a timely manner is a necessary requirement for the performance of **AIReF's** functions. The law establishing AIReF guarantees this access, but it is necessary to achieve its optimum application by establishing useful exchange **mechanisms between Administrations, as set out in AIReF's 2015-2020 Strategic Plan**. In the kind of work to be done by AIReF, which also has tight deadlines to meet, the possibility of drafting useful reports, put together rigorously and objectively, is significantly hampered when the necessary information is not available.

In this context, the European Commission considered that the **development of the regulations on AIReF's access to information was** not in line with the common principles of the Treaty on Stability, Coordination and Governance. Although the Organic Law establishing AIReF adequately guarantees access to the information necessary for the fulfilment of its functions, the subsequent regulatory development introduced additional, potentially significant restrictions. In this sense, the Ministerial Order that regulated the exchange of information introduced the obligation that the information would first be requested from the Economic-Financial Information Centre (IC) of the MINHAFP. This obligation was subsequently repealed, when the AIReF appealed the corresponding articles before the contentious-administrative jurisdiction.

In line with the European Commission, the evaluation of AIReF carried out by the OECD in 2017, as well as the audit carried out by the Court of Auditors, recognises the resolution of certain issues relating access to information as one of the pending challenges. According to the OECD, a Memorandum of Understanding (MoU) between AIReF and the Government could be a good basis for more collaborative and predictable access to information.

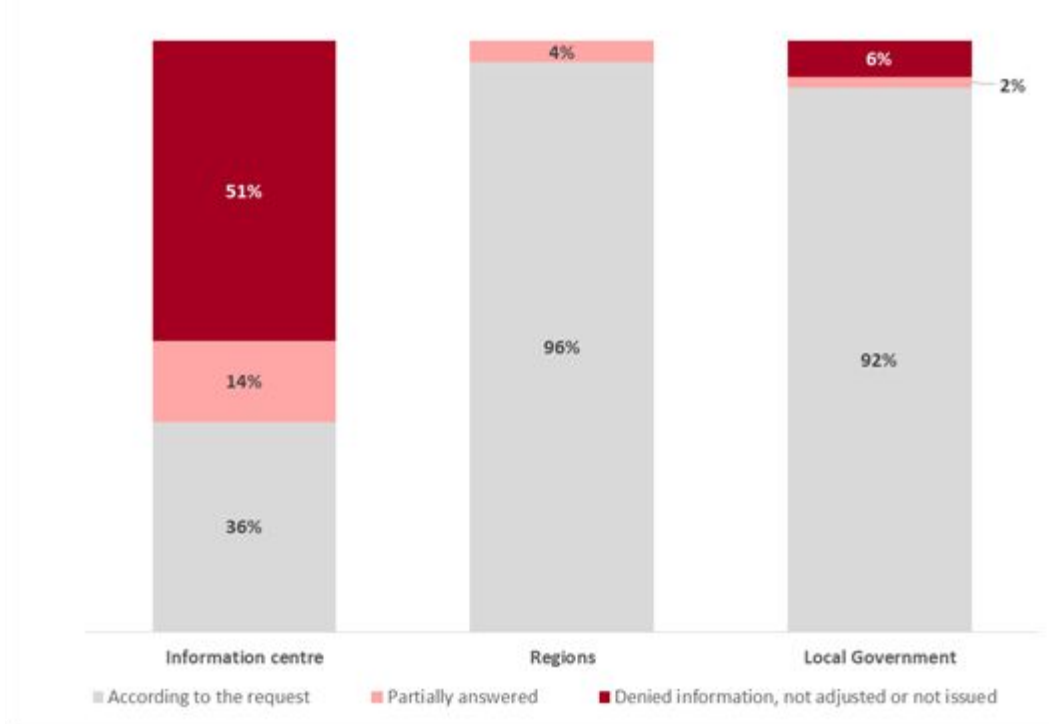
In order to monitor the fulfilment of the duty to collaborate with AIReF on this matter, in 2016 AIReF implemented a system for tracking information requests to the different PAs. This system has been completed and perfected in 2017 by incorporating the requests made to all TAs. For the first time this Report includes both the monitoring of the requests made to the IC and the Regions and LGs. In general, each request for information is linked to the preparation of any of the reports that AIReF must issue under current regulations. For reasons of procedural economy and administrative efficiency, each request groups several requests for

information, requests that may be subject to a separate response and/or individual monitoring, either due to reference to different fiscal rules, different financial periods or due to being provided by different bodies.

**In 2017, 51% of AIReF's requests for information from the IC were denied or the response given did not comply with the request made.** In the case of requests made to the TAs, only 6% of those sent to LGs were denied or non-compliant, and none of those sent to the Regions. AIReF classifies the requests, whether a response is received or not, into three categories (see Figure 1):

- consistent with the request, that is, suitable for the evaluation to be carried out: over 90% of the requests made to the TAs and only 36% of those made to the IC;
- partial response not sufficient for the analysis: 13% of the requests to the IC;
- information denied, not consistent with the request or not submitted (not valid for the analysis): as is the case for 51% of the requests made to the IC.

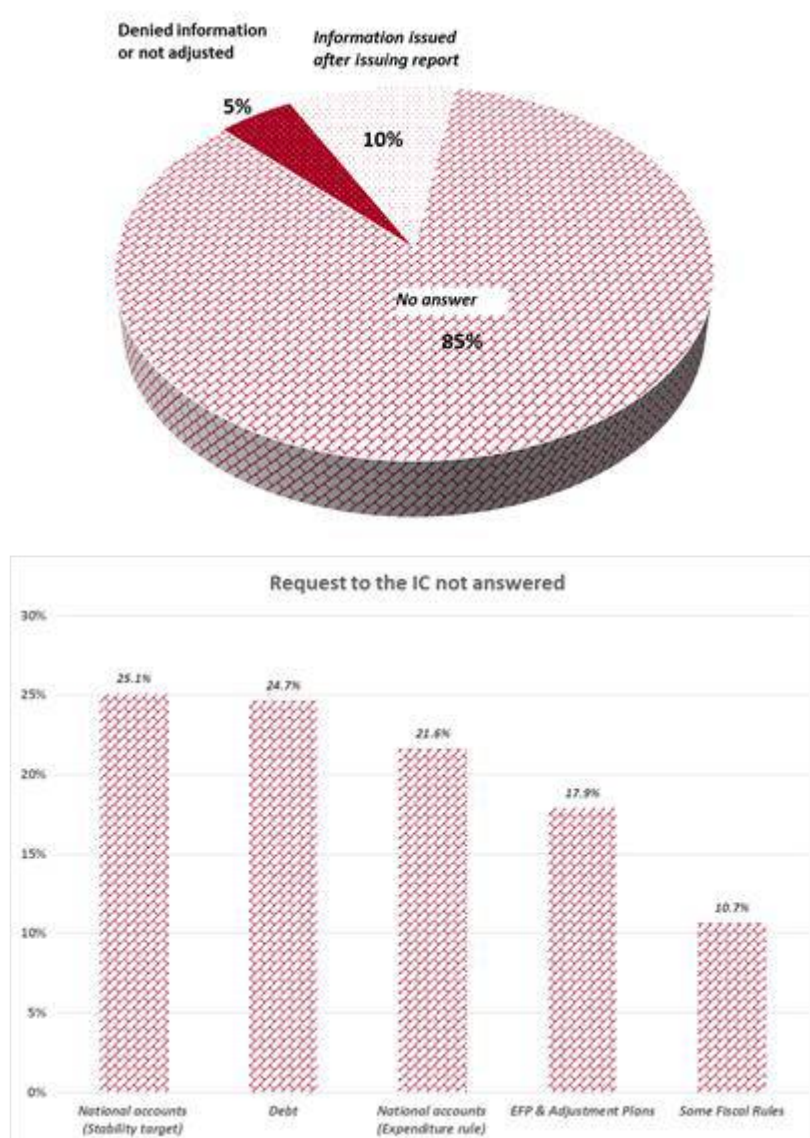
Figure 1: Classification of responses received to AI ReF requests





As the figure below shows, 85% of the requests made to the **MINHAP's IC that are classified as denied, with a response** not consistent with the request or not answered are requests that received no response. In 5% of the cases, the MINHAFP answered by denying the request or providing information not suitable for what was required, and the remaining 10% was sent after AIReF issued the Report for which it was required.

Requests to the IC that were denied, not consistent or not answered



Of the total number of requests for information made to the IC with no response, the bar graph above shows the different reasons for the requests, broken down by type of fiscal rule or type of

documentation requested, and their relative importance. These reasons are:

- "National accounting information related to the calculation of the stability target": This includes requests for data, both at the sub-sector level and at the individual level, corresponding to the national accounting adjustments necessary for the calculation of this target, companies classified as public administration that are included in the perimeter of consolidation, the list of LCs not complying with the target and other budgetary information relevant to the effect.
- "Information related to debt": This includes unanswered requests corresponding to data on current or forecasted debt, both from an institutional sub-sector and from individual PAs.
- "National accounting information for the calculation of the expenditure rule": This includes requests for data relating to the components that must be taken into account in this calculation, both at the level of one sub-sector and of individual PAs, as well as information on LCs not complying with this rule.
- "Information on Adjustment Plans (APs) and EFPs": This includes the requests information on measures, limits and other data on both types of documents.
- "Various fiscal rules": This includes requests for information on relevant operations that affect the calculation of several fiscal rules (one-off operations, multi-year budgetary frameworks, financing system resources, etc.).

#### **BOX 10: PROGRESS IN THE ACCESS TO THE INFORMATION NECESSARY FOR THE PERFORMANCE OF AIREF'S FUNCTIONS.**

The amendments introduced into AIREF's Organic Statute with the publication of Royal Decree 105/2018, of 9 March, strengthen its independence, with advances in terms of access to information, preparation of its budget and monitoring of recommendations.

With regard to the submission of information, the Organic Law establishing AIREF laid down the obligation held by the PAs to provide any economic-financial information requested, with the only restriction that this would be necessary for the performance of AIREF's functions. The adoption, in 2014, of AIREF's Organic Statute, limited the scope of the law in two ways: on the one hand, **auxiliary or supporting information was left out of this obligation, and, on the other hand, it limited AIREF's access to the information already prepared in compliance with the Organic Law on Budgetary Stability and Financial Sustainability or other statutory or regulatory provisions.**

Royal Decree 105/2018 eliminates the first of these limitations as AIREF may access auxiliary or supporting information upon request from now on. This entails progress in the second limitation,

because, although it is maintained, its restrictive effects are offset by foreseeing the creation of collaboration mechanisms in which to specify and clarify the content and deadlines for the submission of information and to deal with specific aspects to be assessed in the different reports.

In addition, this Royal Decree details the information that the Ministry of Employment and Social Security must provide for the issuance of the opinion regarding the PRI and includes the provision contained in the Organic Law establishing AIReF with respect to the obligation of the Technical Committee on National Accounts to provide AIReF with the reports issued in the exercise of its functions.



## 5. Monitoring of the 2017 Action Plan

**AIReF's activity was structured around the aims defined in the 2015-2020 Strategic Plan.** The 2017 Action Plan prioritised the targets identified in the Strategic Plan and ensured consistency between short and medium-term planning.

The aim of this section is to allow easy monitoring of the 2017 Action Plan. **In this way, the report becomes an essential element of the institution's accountability to society.** To facilitate the monitoring of the Plan, a table with the proposed actions has been included as an annex, classified according to the aims and lines of action of the Strategic Plan and according to their situation at the end of the year.

The 2017 Action Plan guaranteed the tasks entrusted to AIReF by law, such as the issuance of reports and opinions, and initiated progress in other areas. Of these it is worth noting the contribution to a better orientation towards budgetary stability, the promotion of the financial sustainability of the PAs, the improvement of transparency and budgetary practices in the management of public accounts and the contribution towards Spanish society perceiving the benefits of budgetary stability and financial sustainability.

The implementation of the 2017 Action Plan was conditioned by the limited availability of human resources. Within the actions for 2017 it was planned **to expand the institution's Staff Establishment Plan, one of organisation's goals since its inception.** Finally, on 5 September, the CECIR approved the first amendment to the initial Staff Establishment Plan, creating seven new positions, essentially intended to support the State and Social Security Area and that of the Autonomous Regions and Local Corporations, both from the Budget Analysis Division. However, the recruitment of this staff did not begin to take place until November, which made it necessary to prioritise the allocation of available resources to the actions more directly related to the issuance of the reports and opinions provided for by the regulations.

Nonetheless, AIReF obtained substantial progress in each of the strategic aims. Although all the planned actions could not be completed, it should be noted that work began on most of them. In 2018, AIReF will continue working on the actions that could not be concluded in 2017, which will be reflected in the 2018 Action Plan, which will follow the new lines included in the revision of the 2015-2020 Strategic Plan.

AIReF improved its analysis instruments in order to contribute to budgetary stability. In this regard, AIReF continued to make progress in the design and development of its medium and long-term macroeconomic and fiscal models. In the AIReF Quarterly Model there have been advances in the simultaneous resolution of the model. As regards the real-time economic forecasts, the analysis has been extended to the Region of Catalonia, adapting to the existing reality and, although it was not foreseen, it has carried out an uncertainty analysis and has developed a Catalan MIPRED model. It also continues to strengthen the analysis of the LGs, systematising it within a database and incorporating more and more indicators for the assessment, as well as significantly increasing the number of LGs under analysis. On the other hand, it is important to highlight the monthly publication of the stability target monitoring that, until now, was prepared quarterly.

Regarding the financial sustainability of the PAs, an initial version of the migratory movements forecasting model was developed, an accounting aggregates model was designed and developed for forecasting expenditure on pensions and work began on a demographic forecasting model for its integration into a pension expenditure model. Progress was also made in the development of an output gap methodology. Opinions on the 2017 PRI and on the application of the formula for calculating the contribution rate for cessation of activity were also published. The “Spending Review” of the GG entrusted to AIReF in order to improve efficiency in expenditure and the fact that during 2017 the Action Plan for the review of expenditure on subsidies was prepared, which will be executed in 2018, should also be highlighted.

Within its commitment to increasing transparency and the need to contribute objective elements to the debate on the sustainability of public finances, AIReF has included an Economy Thermometer that enables economic trends to be followed in detail and graphically. AIReF also continues to develop and update the rest of the methods, tools and models already implemented that facilitate the understanding of the data. Another important aspect to achieving this target is to add elements that favour a multi-year framework to the studies and analyses. This aim has also been strengthened with the suggestions for good practices included in the reports and opinion proposals. On the other hand, we continue to note the work carried out within the EU Network of Independent Fiscal Institutions, with participation in various internal meetings, with the OECD and the European Commission.

To help society perceive the benefits of budgetary stability and financial sustainability, AIReF continued to strengthen its global communication strategy, its presence in forums was notable and its institutional presence was consolidated. It has continued to increase its presence on social networks, as well as participation in seminars and academic and media forums.

This effort to improve the dissemination of information has been reinforced by the launch of the new website. The bilateral relations with other institutions notably include the numerous appearances of the President before Parliament. Likewise, a paid internship programme with selected Spanish universities was held for the third year in a row, which resulted in the granting of nine research fellowships and two educational scholarships.

**The actions aimed at structuring the institution's mission are framed** within the cross-cutting aim. In 2017, in addition to continuing to publish its reports in accordance with the applicable regulations, AIReF's commitment towards monitoring its recommendations by further implementing the "principle of comply or explain" and the almost unanimous response of the Administrations involved should be noted. Progress is also being made to consolidate an administrative and independent management structure, specifically; the **"Administración Electrónica" is implemented: a service for telematic payment and electronic processing of files for the electronic headquarters, as well as the development and implementation of fee management.**

**In 2017 the commitment made by AIReF's President to carry out a mid-term** independent external evaluation of the institution, in order to promote accountability and to improve the effectiveness of the AIReF, was fulfilled. The evaluation was led by members of the Budget and Public Expenditures Division of the OECD and involved experts from two leading IFIs in the international sphere, the Congressional Budget Office (CBO) of the United States and the Dutch Central Planning Bureau (CPB), as well as an expert in Spanish public finance.

The conclusions and recommendations of the report will be taken into account when defining the activity in the remaining years of the **current President's mandate**. Where possible, the recommendations will be incorporated into the revision of the Strategic Plan and the Annual Action Plans. The President plans to appear before Congress for this purpose.

The report will benefit the entire community of IFIs. It will be presented at the 2018 meeting of the OECD network of Parliamentary Budget Officials and IFIs as part of the usual discussions on working methods, challenges, principles and evaluation of the IFIs. The detail of the report's methodology and its recommendations can be found in box 11.

#### BOX 11: OECD INDEPENDENT EXTERNAL EVALUATION OF AIREF

The execution of an independent external evaluation was a commitment assumed by the President, in his appearance before the Congress of Deputies as a candidate for the Presidency of AIReF, and is part of AIReF's 2015-2020 Strategic Plan.

The evaluation team was selected in 2017 through a competitive call for applications for a grant to study the activity of the IFIs.

#### Main elements of the evaluation methodology:

- Take the existing standards at the international level as a point of reference.
- Follow the OECD principles for this type of evaluation, in order to address four areas: the context and institutional design; resources for the performance of the mandate; outputs produced and analysis methodologies; impact of the activity.
- **It contains a special chapter on AIReF's activity in the sub-national sphere.**
- The team carried out two missions to Spain (July and September). They included interviews in Madrid with the main PAs, members of Congress and the Senate, research institutes, permanent representation of the European Commission in Spain, members of the AIReF Advisory Board, the Court of Auditors, members of the Bank of Spain, of the Technical Committee on National Accounts or of the Transparency Council, as well as the main media. In addition, two regional missions were carried out to the Regions of Galicia and Valencia.

Main elements of the 20 recommendations, some of which are not addressed directly to AIReF, but to the interlocutors with whom it relates or define its design:

Inputs	Outputs
<ul style="list-style-type: none"> <li>- Development of information MoUs</li> <li>- Early access to information</li> <li>- Multi-year budget. Procedures similar to other independent entities</li> <li>- Reconsideration of resources</li> <li>- Fee sufficiency assessment</li> <li>- Adjust new functions to resources</li> <li>- Review of the reporting calendar</li> </ul>	<ul style="list-style-type: none"> <li>- Medium-term forecasts (3-5 years)</li> <li>- More tables, summaries and figures in the reports</li> <li>- More detail on forecasts</li> <li>- Forecast self-evaluations</li> <li>- Review policy on not publishing macro forecasts</li> </ul>
Impact	Sub-national sphere
<ul style="list-style-type: none"> <li>- More selectivity in the formulation of recommendations</li> <li>- More accessible, non-specialised documents for the public</li> <li>- Expand media coverage (television)</li> <li>- Targets for social networks</li> <li>- More activity with academia/universities</li> <li>- Periodic satisfaction surveys (parliamentary and academic).</li> </ul>	<ul style="list-style-type: none"> <li>- Maintain comparative analysis</li> <li>- Strengthen communication (press, parliaments, academia)</li> <li>- Deepen the scope of the analysis, broadening coverage (smaller municipalities) Continue to develop the analysis on the vertical distribution of fiscal targets</li> </ul>

AIReF has published an explanatory table on its website that is also included as an annex to this Report, following the "comply-or-explain principle", in which it sets out in detail the recommendations of the OECD external evaluation with which it will comply and in what time frame, as well as the other recommendations that are explained because they will not be followed.

Spanish: [La evaluación de la OCDE de la Autoridad Independiente de Responsabilidad Fiscal \(AIReF\)](#)

English: [OECD Review of the Independent Authority for Fiscal Responsibility \(AIReF\)](#)



In 2017 the Advisory Board continued to be an essential element in the institution's accountability. The Advisory Board, composed of persons of **recognised national and international prestige with at least ten years' experience in budgetary, economic and financial analysis**, held four meetings. The minutes of the Advisory Board meetings are public and are available on the AIReF website.

The monitoring of the 2017 Action Plan in this report serves as the basis for the design of the Plan for the following year. The 2018 Action Plan is being assembled, in order to continue with the implementation of the 2015-2020 Strategic Plan, **which was revised as a result of the OECD's external evaluation, the assumption of new tasks not foreseen in the initial Strategic Plan and a reflection on the experience accumulated over AIReF's time in operation**, in parallel with the preparation of the annual activity report.

In 2017, AIReF was subject to an exhaustive audit by the Court of Auditors, a procedure that reinforces its commitment to accountability and its vocation as an independent and transparent body. Below is a summary box on this milestone. In addition, the report of the Court of Auditors can be consulted on its website.

#### BOX 12: AUDIT OF THE COURT OF AUDITORS

On February 1, 2017, an official notice was received from the Court of Auditors informing that, as part of its annual audit programme, the Court had decided to initiate the audit of this institution, in relation to the years 2015 and 2016.

On October 27, the preliminary draft audit report was received. The content and recommendations of this preliminary draft were analysed carefully, with the intention of incorporating all aspects that would improve the functioning of the institution, having already implemented some of them during the audit process itself.

On November 20, **after favourable deliberation of the Steering Committee, AIReF's President** formulated extensive arguments to explain a series of conditions that were relevant in the context of the observations contained in the preliminary draft and given that the audit team had addressed both methodological issues as well as the way AIReF had carried out its work of monitoring and supervising different PAs with value judgements, which transmitted a distorted image and questioned the rigour and professionalism of the institution.

The interaction with the audit team was a significant organisational challenge for AIReF, given the **institution's low staff numbers during 2014, 2015, 2016 and practically the whole of 2017 (32 people, 6 of them in the Legal Affairs Division)** and the extent of its monitoring and supervision functions of all PAs, including Autonomous Regions and municipalities.

During the nine months over which the audit activity extended, AIReF collaborated fully with the team from the Court of Auditors. **All of AIReF's staff and, especially, those assigned to the Legal Affairs**

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Division, provided the required documentation and information and used their best efforts to provide extensive factual, legal and methodological explanations.

On 16 January, 2018, the Court of Auditors published the final report (No. 1,248) on its website, which largely addresses the arguments advanced by AIReF and it can be verified that many sections and evaluations that were part of the initial draft have been deleted.

AIReF has considered it pertinent to implement "comply-or-explain principle" contained in its own regulations (Article 5.1 of the Organic Law 6/2013) and respond to the recommendations made by the Court **in detail. To this end, as of 16 January, 2018, an explanatory table\* is published on AIReF's website, which** indicates in detail the recommendations that it intends to comply with, the measures that have been adopted or will be adopted to implement said recommendations and the deadline for execution, as well as the other recommendations that are not considered relevant and the specific reasons.

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\*This explanatory table is included as an annex in this Report.

## 6. Economic management and human resources

### 6.1. ECONOMIC MANAGEMENT

Law 3/2017, of 27 June, on the 2017 GSB approved a budget of 4.67 million Euros for AIReF.

The expenditure finally executed during 2017 amounted to 4.58 million Euros.

**The percentage of execution of AIReF's expenditure budget has risen to 90.25% in 2017.** The detailed execution of the expenditure can be observed in the following table. The execution of different budget chapters reflects that the institution's performance in 2017 is in accordance with the provisions of its Action Plan.

AIReF continued with its policy of transparency in economic management. The transparency section of the website contains information on the compensation of the members of the steering committee; the monthly execution of the expenditure budget, as well as the detail of expenses above 1,000 Euros and the collection of income from the fee. In addition, it also includes the contractor's profile and the list of contracts, management assignments and collaboration agreements signed by AIReF and the subsidies granted.

## Expenditure budget execution 2017

(thousands of Euros)

Item	2017 Budget *	Execution
Staff costs	3,394.76	3,075.90
- President and staff reporting to the President		633.23
- Budget analysis division		1,246.15
- Economic analysis division		515.06
- Legal affairs division		529.99
- Philanthropy		151.47
Operating costs	1,149.42	1,004.01
- Leases, repairs and maintenance		82.05
- Office supplies		46.50
- Light and water		11.43
- Telephony and internet		71.68
- Cleaning		29.16
- Studies and technical work		108.65
- External services		512.43
- Travel		37.48
- Publication costs		31.23
- Hospitality	4.68	4.18
- Other expenses		69.22
Paid internships	220.00	217.76
Investments	295.00	278.33
Advances to staff	12.00	0.96
Total	5,071.18	4,576.96

\*Includes credit changes

In terms of revenues, the supervision fee is AIReF's main source of funding. This fee (provided for in the second additional provision of the Law establishing AIReF) is paid by the PAs that receive the reports, depending on their budget. This financing system, **which is innovative in the field of Independent Financial Institutions, allows AIReF's** financial independence to be guaranteed. Independence is a key element that should serve as a basis for the exercise of its legally entrusted powers. The amount collected from the fee in 2017 was 3.89 million Euros, 76.77

% of the expenditure budget. The State, Social Security and all the Regions paid the fee. There were only two institutions that did not pay<sup>4</sup>. In 2017, AIReF initiated the procedures for settling the fee owed by the PAs that in 2016 and in previous years did not settle the amounts themselves yet earned the corresponding amount or did so outside the period established for that purpose. The rest of the funding came from the existing treasury surpluses, and for the first time, income was generated from studies commissioned by the PAs.

## AIReF revenues 2017

(thousands of Euros)

Item	Accumulated as of December 31.
<i>AIReF Fee 2017</i>	3,893.07
<i>State</i>	1,291.39
<i>· Social Security</i>	1,200.74
<i>· Autonomous Regions</i>	1,192.88
<i>· Local Corporations</i>	208.05
<i>Rate of previous years</i>	1.94
<i>Settlements made by AIReF</i>	487.51
<i>Studies</i>	67.90
<i>Other revenue</i>	7.33
<b>TOTAL REVENUE</b>	<b>4,457.75</b>

<sup>4</sup> The Autonomous City of Ceuta and the Provincial Council of Granada did not pay the 2017 supervisory fee.

Below is a table with the Balance sheet, as it appears in the 2017 annual accounts:

### Balance sheet 2017

(thousands of Euros)

ASSET	2017	2016	NET ASSETS AND LIABILITIES	2017	2016
A) Non-current assets	5,742.64	5,571.48	A) Net assets	6,783.05	6,934.70
I. Intangible fixed assets	120.74	65.91	I. Contributed equity	4,624.86	4,624.86
II. Tangible fixed assets	5,621.90	5,505.57	II. Equity generated	2,158.19	2,309.84
III. Investments in Real Estate	0.00	0.00	III. Adjustments for currency	0.00	0.00
IV. Long-term financial investments in group, jointly controlled entities and	0.00	0.00	IV. Other equity increases pending imputation to results	0.00	0.00
V. Long-term financial long term	0.00	0.00	B) Non-current liabilities	0.00	0.00
VI. Debtors and other long-term receivables	0.00	0.00	I. Long-term provisions	0.00	0.00
B) Current assets	1,354.40 1,654.44		II. Long term debts	0.00	0.00
I. Assets for sale	0.00		III. Long-term debts with group entities, jointly-controlled entities and associates	0.00	0.00
II. Inventory	0.00	0.00	IV. Creditors and other long-term payables	0.00	0.00
III. Debtors and other accounts to collect	77.67	79.94	investments	0.00	0.00
IV. Short term financial investments in group entities, jointly controlled entities and associates	0.00	0.00	C) Current Liabilities	313.99	291.22
V. Short-term financial investments	99.96	77.89	I. Short-term provisions	281.19	0.00
VII. Cash and cash equivalents	1,176.58	1,546.61	II. Short term debts	0.00	0.00
			III. Short-term debts with group entities, jointly associates	0.00	0.00
			IV. Creditors and other accounts payable	32.80	291.22
			V. Accrual accounts	0.00	0.00
TOTAL ASSETS	7,097.04		TOTAL NET ASSETS AND	7,097.04	

## 6.2. HUMAN RESOURCES

**AIReF comprises three divisions and the President's cabinet of advisors.** . The Economic Analysis Division performs functions, among others, relating to monitoring economic reality and assessing the macroeconomic forecasts included in the budgets. For its part, the Budget Analysis Division is responsible, among other functions, for the analysis and monitoring of the budgetary cycle as a whole. Lastly, the Legal Affairs Division sees to the **institution's daily management tasks and provides a legal advisory** service. This structure is largely horizontal and is underpinned by continuing collaboration and communication among the different units

**Although AIReF's staff has not reached the optimum** size for its legally assigned duties, in 2017 the first extension of the Staff Establishment Plan was approved, as a new extension would be necessary in 2018, which has been approved by the CECIR at its meeting on 22 March.

In this initial amendment, seven new jobs have been created, specifically: a Director, Level 30; an Analyst, Level 28, and a Department Manager, Level 26, assigned to the State and Social Security Area of the Budget Analysis Division; and four Level 26 Department Managers for the Autonomous Regions and Local Corporations Area, also from the Budget Analysis Division.

Likewise, the specific levels and special allowances of two posts of the Secretariat have been modified, within the Management Area of the Legal Affairs Division, which move from Level 15 to Level 17 and, finally, the special allowance of the post of Secretariat Level 18 assigned to the **President's cabinet of advisors has been increased.**

Thus, the current Staff Establishment Plan has 38 positions, thereby beginning the process of achieving the staff necessary for the performance of the **institution's functions in the coming** years and obtaining a similar allowance as international organisations with similar functions, which is around 65 employees.







## ANNEXES: Monitoring of reports and opinions

## Recommendations on the subject of the report

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on the main budgetary lines of the Local Corporations: 2018						
Common framework of powers of the supervisory bodies. Establish and supervise a common framework for the exercise of the powers attributed to the supervisory bodies of the LGs, where the criteria and procedures for action are clearly defined and published in order to guarantee the homogeneous application of the LOEPySF in all the LCs and throughout the national territory.	19/12/2017	LGs	MINHADP	Common framework	Explanation	The MINHAFP alludes to the annual meeting, in which AIReF participates, which serves to coordinate and establish uniform criteria in the exercise of financial protection. In addition, based on the quarterly reports on financial protection submitted by the corresponding supervisory body, the MINHAFP provides the protecting Region with annual information on the LCs not complying with fiscal rules in their territorial scope and resolves interpretative doubts in the application of the regulation so that it is applied equally throughout the national territory. <b>AIReF's</b> recommendation establishes the need for the criteria established in these meetings for the homogeneous application of the LOEPySF in LGs throughout the national territory to be documented and such documents to be published, so that they link the managing administrations and their supervisory bodies and, likewise, these publications should highlight possible deviations in the application of the Law in a given territory.
Calculation of the expenditure rule on main budgetary lines. Incorporate the calculation of the expenditure rule into the information that the LGs communicate on the main budgetary lines, approved budgets and execution, as well as an analysis of the consistency of this rule with the balance or surplus situation that can be deduced from the planned revenue and expenditure scenario, assessed in national accounting terms.	19/12/2017	LGs	MINHAFP	Main budgetary lines, draft budget, initial budgets and budgetary monitoring	Explanation	The MINHAFP explains that the obligation to evaluate the expenditure rule was eliminated: (i) in order to reduce the burden of information provision obligations of local financial controllers that has increased in the context of fiscal consolidation in recent years; (ii) given that the local financial controller's estimate of compliance with the expenditure rule at year-end is already sufficiently useful information and (iii) that the information on the expenditure rule in the budgetary phases recommended by AIReF would only generate confusion and it would not be significant, given that the degree of non-execution of the expenditure budget is 16.8%, reaching 54.2% in capital operations (2016 data). However, AIReF considers that the LOEPySF does not exclude the calculation of this rule at any level of the PAs in the first phases of the budgetary cycle, as this exclusion of communication is contrary to the <b>spirit of the Law to enhance the mechanisms for early risk detection. The local financial controller's</b> estimate of compliance with the rule at year-end referred to by the Ministry is based on some estimates that the controller performs as budgetary execution progresses, so the communication obligation only supposes the referral of this data to the MINHAFP.
Economic-financial information. Review the publications of the economic-financial information of the LGs on the MINHAFP website and periodically update their data so that they include the latest situation.	19/12/2017	LGs	MINHAFP	Practical application	Explanation	The MINHAFP indicates that this task is already in place. On the one hand, the publications are reviewed and requirements are sent to the LGs in case of incongruous or apparently erroneous information. On the other hand, Mandate HAP 2105/2012 establishes a calendar for the gathering of information and its publication, which is fulfilled by the Ministry, without any update outside that calendar. AIReF considers that, in accordance with the Law, definitive data must be published in the fourth quarter of the year, must be reviewed periodically when the data is no longer definitive due to information being submitted outside of the deadline, updates, etc., all so that the published information refers to the most updated situation of the LGs
Financial sustainability. In line with the provisions of articles 25.2 and 26 of the LOEPySF, convene and lead a commission of experts for the City Councils of Jerez de la Frontera, Alcorcón, Parla, Jaén, Gandía, La Linea de la Concepción, San Andrés de Rabanedo, Totana and Navalcarnero, in which the protecting Region participates, when appropriate, in order to analyse the causes for which these city councils have sustainability problems and propose the most appropriate solutions.	19/12/2017	City Councils of Jerez de la Frontera, Alcorcón, Parla, Jaén, Gandía, La Linea de la Concepción, San Andrés de Rabanedo, Totana and Navalcarnero	MINHAFP	Practical application	Explanation	The MINHAFP states that the gradual nature of the measures established by the LOEPySF must be respected; therefore the measure could only be applied after applying the preventive and corrective measures. In addition, the measure optional for the MINHAFP, not automatic. On the other hand, it points out that the municipalities with problems are already monitored as they have an AP due to being included in the Management Fund. Finally, it states that, based on the quarterly information submitted by corporations with a population of over 5,000 inhabitants, the risk of non-compliance with the expenditure rule has been detected in 180 corporations that have been requested to send a report to their supervisory body on the causes of deviation and the risk of materialisation in 2018. According to AIReF the gradual nature of the measures of the Law should have been implemented before the unsustainable situation of these LGs became chronic, therefore, in the current situation, medium- and long-term measures are required to allow the reversal of a consolidated negative situation, measures that must be agreed upon by all stakeholders, through mechanisms such as a Commission of Experts.

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
High risk of non-compliance with stability target. Because of the high risk of non-compliance with the stability target, adapt the draft budgets to guarantee compliance by the end of 2018	19/12/2017	City councils of Valencia, Murcia and Palma de Mallorca	City councils of Valencia, Murcia and Palma de Mallorca	Draft budgets	Explanation: City councils of Valencia, Murcia and Palma de Mallorca	<p>City Council of Valencia: With the data foreseen in terms of net lending/borrowing of the approved budget and taking into account 7.54% non-execution compatible with compliance with the expenditure rule and the expected execution of income at 100% as in recent years, it is highly likely that the result in terms of budgetary stability in 2018 will far exceed the 98 million Euros foreseen for 2018 in the 2012-2022 AP. However, AIReF states that the data provided by the City Council do not coincide with those provided for the preparation of the report on the 2018 budgetary lines and taken as the basis for issuing the recommendations made by AIReF. This data will be verified with the report on the approved Budgets that will be issued in April of this year.</p> <p>City Council of Murcia: Indicates that it has an EFP in force and that the 2018 draft budget has to coincide with the EFP and therefore, the 2018 draft budgets are being prepared taking into account the headings provided in the EFP, although with downward adjustments in non-financial expenditure, in view of a foreseeable decrease in revenues, mainly of Chapter I, and in order to guarantee compliance with the Stability target and the expenditure rule for 2018. However, AIReF already estimated a decrease in expenditure, maintaining the same revenue forecast. With these data, risk of non-compliance with the EFP was detected as a result of national accounting adjustments. The City Council says that it reduced the expenditure to accommodate for the forecast of lower revenues, so the risk would be maintained.</p> <p>City Council of Palma de Mallorca: states that it is budgeting prudently (the financing capacity in 2016 and 2017 was much higher than originally budgeted). For 2018 it expects a more moderate financing capacity because it will spend on investments financed with the funds of the Capital Law collected in 2015, 2016 and 2017, not executed in those years. Therefore, it understands that the decrease in financing capacity in 2018 should be valued in conjunction with previous years. Regarding the debt-to-GDP ratio, it indicates that the indebtedness in recent years has increased by around 70 million as it has taken advantage of State Funds for the payment of final judgements, but which was not included in the AP for 2012 as these contingencies were not known.</p>
Moderate risk of non-compliance with stability target. The city councils where there are moderate risks of non-compliance with the stability target should adopt the necessary implementing measures in order to guarantee compliance by the end of the year.	19/12/2017	City Councils of Barcelona, Bilbao, Vigo and Gijón	City Councils of Barcelona, Bilbao, Vigo and Gijón	Budgetary monitoring	Commitment to compliance: City Councils of Barcelona, Bilbao and Gijón Explanation: City Council of Vigo	<p>City Council of Barcelona: It indicates that if the monitoring of budgetary execution reveals any risk of deviation that would jeopardise compliance with fiscal rules, especially the stability target, appropriate measures would be adopted to redress the situation, basically by means of credit withholdings.</p> <p>City Council of Bilbao: States that measures have already been taken in the current EFP such as the non-inclusion of credit operations, in addition to the foreseeable improvement of the initial income of the Provincial Fund for Municipal Financing. Therefore, it assures that compliance with the stability target for 2018 is virtually guaranteed. In addition, it commits to monitor the budgetary execution data if any adjustment for compliance becomes necessary. However, AIReF considers that the City Council is not bearing in mind that its stability target is not equilibrium, which is referred to in its response, but rather the target approved in the EFP that requires a surplus in 2018 and that AIReF considered to be at moderate risk of compliance.</p> <p>City Council of Vigo: Indicates that, taking into account the percentage execution of each of the chapters of the statement of expenditures for 2018, there is certainty about compliance with the stability target. The Region points out that these non-execution forecasts are not only based on historical data but also on specific measures. Therefore, it says that it is a verifiable fact that it is not in a situation of moderate risk of non-compliance with the stability target.</p> <p>City Council of Gijón: Lists a series of preventive measures that it plans to adopt: determine the computable expenditure ceiling based on a prudent scenario of revenue evolution, adjust the use of the treasury surpluses to the 2018 financing capacity and, if necessary, adjust or suppress spending programmes planned in the initial budget.</p>

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Supervisory bodies. Within their powers as a supervisory body for the city councils in which moderate risks of non-compliance with the stability target are foreseen, they monitor that the yearly execution of these LCs is consistent with compliance.	19/12/2017	City Councils of Barcelona, Bilbao, Vigo and Gijón	MINHAFP, Provincial Council of Biscay, Galicia and Asturias	Budgetary monitoring	Commitment to compliance: Provincial Council of Biscay, Asturias and Galicia	Provincial Council of Biscay: Will monitor that the 2018 execution of the City Council of Bilbao is consistent with the stability target reflected in the approved EFP, as it does with the rest of the City Councils over which it exercises financial protection powers. Asturias: Indicates that it has access to the quarterly information provided by the city council and thus monitors compliance with the stability regulations. Affirms that, according to the latest information available for the third quarter of 2017, the City Council of Gijón would comply with all fiscal rules and that when it has the provisional settlement of the fourth quarter it would verify compliance with fiscal rules and adopt the relevant measures, if appropriate. According to AIReF, given that the recommendation made refers to the monitoring of 2018 execution, the Region has not provided a response since it only mentions the year 2017. Galicia: Specifies that the report of the Municipal Intervention Board on the approved 2018 budget of the City Council of Vigo shows that it complies with the budgetary stability target and the expenditure rule. However, it expresses its willingness to comply with the recommendation and states that, on the occasion of submitting quarterly settlement data, it carries out the corresponding monitoring of the budgetary execution of the LCs under its protection, from which it may request the adoption of measures, in the event that there is a risk of non-compliance with any of the fiscal rules.
Report on the Castile La Mancha EFP						
Stability target and expenditure rule. For the current year, the Region carries out the necessary monitoring that guarantees avoidance of the deviations that may be seen in execution.	21/11/2017	Castile La Mancha	Castile La Mancha	Budgetary monitoring	Pending	There is no closing data available to verify whether the Region has carried out monitoring on deviations.
Report on the main budgetary lines of the 2018 budgets of the Autonomous Regions						
Instalment payments. Review the instalment payments of the resources of the RFS for 2018 in line with the GDP growth forecast in the 2018 Budgetary Plan.	24/10/2017	Autonomous Regions	MINHAFP	Practical application	Explanation	The MINHAFP responds that the last communication of instalment payments took place in July and that it will be updated with the budgetary carry-over and when the 2018 Draft GSB is approved. However, AIReF considers it important that instalment payments are adjusted as closely as possible to the economic cycle, therefore the recommendation is aimed at updating the instalment payments in 2018 to the income forecasts for that year (regardless of whether or not the GSB is approved and, in the latter case, through the legally established formula) and it is not expected to have to make the adjustment to the final settlement in 2020.
Working groups on the expenditure rule. Do not delay the procedures for the constitution of the working groups announced for the analysis of the expenditure rule, as well as to solve the methodological gaps for its application in practice as soon as possible.	24/10/2017	Autonomous Regions / LGs	MINHAFP	CPFF / CNAL	Commitment to compliance	The MINHAFP confirms that there has already been a meeting of these working groups and adds that this process ensures that the results are compatible with the expenditure rule at European level, which will play a key role in the process of supervising Spanish public finances once we are out of the EDP. However, AIReF is not aware of the existence of these working groups or the content of their meetings.
Stability targets. Stability targets should be set according to the expenditure rule, so as to guarantee the simultaneous and coordinated compliance with both fiscal rules, to achieve the necessary coherence required by the LOEPySF.	24/10/2017	Regions	MINHAFP	Agreement of the Council of Ministers on setting stability targets for the regions	Commitment to compliance	The MINHAFP would agree, in the future, to analyse the possibility that the expenditure rule is considered when setting stability targets, as it is part of the set of fiscal rules contained in the LOEPySF, for the greater role it is playing as progress is made in the process of fiscal consolidation and due to its function of complementing the deficit target.
Debt targets. Introduce the necessary corrections into the current system for setting regional debt targets that would allow the individual debt targets to constitute a real restriction to the EDP debt, aimed at achieving debt sustainability in the medium and long term.	24/10/2017	Regions	MINHAFP	Agreement of the Council of Ministers on setting debt targets for the Autonomous Regions	Commitment to compliance	The MINHAFP informs that the budgetary stability and government debt targets referring to the 2018-2020 period were established in application of the LOEPySF (articles 15 and 16). Notwithstanding the foregoing, regarding the establishment of the debt targets for the 2019-2021 period, the recommendations formulated by AIReF will be studied by MINHAFP, but subjecting this study to certain considerations, such as: (i) the need to reconcile the government debt target with the commercial arrears target; (ii) that the target is formulated in maximum terms without incentives in the Regions to exhaust the margin of indebtedness; (iii) the difficulty of adopting specific measures to reduce government debt and (iv) the existence of other mechanisms for debt control in the LOEPySF: the principle of financial prudence, authorisation of debt by the Council of Ministers (Article 20) and reduction of indebtedness (articles 12.5 and 32) In this respect, AIReF considers it necessary to take the necessary measures in order to control and reduce the high level of EDP indebtedness of the Regions and remember that a debt target has been introduced into the LOEPySF precisely for this purpose.

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
<p>Compliance with the expenditure rule. Review the actions in terms of expenditure, so that its evolution compatible with compliance with the expenditure rule can be guaranteed and, in any case, monitor its execution and adopt the measures required for compliance:</p> <ul style="list-style-type: none"> <li>- Andalusia, Balearic Islands, Galicia: In view of the processing of the 2018 Budgets.</li> <li>- Madrid, Basque Country: In view of the processing of the 2018 Draft Budgets.</li> <li>- Asturias: With regard to the processing of the 2018 Budgets, for this Region it is not specified that it should monitor its execution and adopt the measures required for compliance.</li> </ul> <p>Castile and Leon: Incorporate adequate and sufficient information to verify compliance with the expenditure rule in the 2018 Budgets, which are being processed.</p>	24/10/2017	Several Regions	Andalusia, Balearic Islands, Galicia, Madrid, Basque Country, Asturias, Castile and Leon	Regional budgets or draft regional budgets for 2018	Commitment to compliance: Basque Country, Castile and Leon, Galicia, Madrid, Asturias, Balearic Islands Explanation: Andalusia	<p>Basque Country: Indicates that it carries out exhaustive monitoring of budgetary expenditure, adapting the expenditure to the evolution of the main income items throughout the year. It should also be noted that for 2018, deviations in the execution phase will be minimised due to the lower healthcare expenditure than that included in the draft budget and the expected containment or even decrease in the revenue from guaranteed income.</p> <p>Andalusia: Highlights the high uncertainty due to the lack of information that the Regions have on certain items of a very significant amount that are included in the calculation of the computable expenditure by MINHAF and that are estimated by external sources. It points out that the uncertainty in calculating the computable expenditure hinders the Regions adequately forecasting and monitoring the expenditure rule, as AIReF has also said. However, it indicates that it will urge the creation of a working group on this variable in the CPFF meetings, as well as its active participation. In addition and despite these limitations, it will carry out monthly monitoring of the components of computable expenditure for which information is available. However, AIReF considers that compliance with fiscal rules is the responsibility of each administration and that the Regions have recently received the information that they were missing for the calculation of the expenditure rule from the MINHAF.</p> <p>Castile and Leon: This information can not be included in the draft Budgets because it is being processed but will be included in the financial and economic report of the draft Budgets. Since this compliance can only be determined with the execution of the budget, it can be deduced that the evolution of computable expenditure for the purposes of the expenditure rule in the draft Budgets is lower than that which would result from applying the accumulated reference rate for the years 2017 and 2018 on the computable expenditure of 2016, the year in which the expenditure rule was complied with. As a result, it is not considered necessary to adopt additional measures, but to maintain the usual supervision of budgetary execution.</p> <p>Galicia: The 2018 draft budget includes a greater degree of detail on the budget components of the expenditure rule, reconciling the amount of non-financial expenditure with the computable expenditure. Therefore the growth rate approved for the expenditure rule is available from the initial phase of the budgetary cycle. During the budgetary execution compliance with this variable is monitored and financial supervision is improved for this year through the implementation of measures for early detection of deviations such as: the development of an income application that updates the annual execution forecasts monthly, the setting of personal expenditure targets and the new supervision and monitoring of healthcare expenditure by its general intervention board.</p> <p>Madrid: points out that the Draft Budget that was approved on October 31, and that is currently undergoing the parliamentary procedure, complies with the stability targets and the expenditure rule and the Region wishes to execute it in the terms that would enable compliance. It has established a monthly monitoring and supervision system for budgetary execution. It monitors the expenditure rule with the same frequency, although the calculation of all its components is not always easy to perform. This allows it to detect possible deviations and propose corrective measures.</p> <p>Asturias, compliance with all targets was envisaged in the 2018 draft budget rejected by the General Assembly. Additionally, it periodically monitors budgetary execution so that there are no variations in the estimates of compliance with the expenditure rule.</p> <p>Balearic Islands: States that the expenditure ceiling of the 2018 budgets has been set by taking the expenditure rule into account, which leads it to reach a surplus of 0.36% GDP for this year and it undertakes to carry out monitoring, at least quarterly, of the evolution of the computable expenditure and, where appropriate, to adopt measures sufficiently in advance to be effective. It adds that, from the year-end data for 2017 it will have the necessary information to assess whether it needs to adopt measures to supervise expenditure in addition to those already envisaged in the 2018 budgetary scenario.</p>



Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
<p>Compliance with stability target and expenditure rule. In view of the processing of the 2018 Draft Budget:</p> <p>Valencia: Adjust the income forecasts to the expected amounts of the Regional Financing System, adapting the scenario of the rest of revenue and expenditure to these forecasts and incorporating the actions that guarantee compliance with the stability target and the expenditure rule.</p> <p>Murcia:</p> <ul style="list-style-type: none"> <li>- Review the actions in terms of expenditure, so that its evolution compatible with compliance with the stability target and expenditure rule can be guaranteed and, in any case, monitor its execution and adopt the measures required for compliance.</li> </ul> <p>Explore leeway in fiscal-regulatory competences, mainly in the Tax on Asset Transfers and Documented Legal Acts (TATDLA) and in the Tax on Certain Means of Transportation (TCMT).</p>	24/10/2017	Valencia, Murcia	Valencia, Murcia	Practical application	<p>Murcia: commitment to compliance and Explanation Valencia: explanation</p>	<p>Murcia:</p> <ul style="list-style-type: none"> <li>- Expenditure: The 2018 Budget has been drawn up in accordance with the limit of non-financial expenditure approved in parliament; a limit that was calculated based on a prudent estimate of regional revenues, the deficit of 0.4% GDP allowed by the stability target and the expected adjustments in national accounting terms. In addition, the budgetary execution will be carried out monthly.</li> <li>- Revenue: It does not consider it appropriate to exercise tax increases in TATDLA or in TCMT for two reasons: it would be counter-productive for consolidating the recovery in the Region and the reform process of the RFS should lead to a different scenario in terms of financing and financial autonomy.</li> </ul> <p>Valencia: explains that on October 20 the Consell agreed to incorporate the specific revenue item of 1,325 million Euros in order to comply with the principles of sufficiency and fairness of Law 22/2009 of the RFS and, therefore, the approved 2018 budget complies with the need to maintain a sufficient level of expenditure to meet the basic obligations of the fundamental public services. AIReF believes that the <b>Region's revenue forecast should be realistic, given the importance of good budgetary planning</b></p>
<p>Compliance with stability target. In view of processing the 2018 Draft Budgets, review expenditure actions in order to guarantee their evolution compatible with compliance with the stability target.</p>	24/10/2017	Extremadura	Extremadura	Draft budget	Commitment to compliance	<p>Extremadura: There is a continuous review of expenditure through the work carried out by the General Intervention Board of the Assembly, with monitoring of monthly budgetary execution and with the possibility of the Government agreeing to non-availability credit withholdings on the budget, if necessary, guaranteeing compliance with the budgetary stability target at all times.</p>

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
<p>Compliance with debt target. Include adequate and sufficient information, or complete with detailed information (in the case of Navarre), in their draft budget and in their initial budgets for 2018 in order to verify compliance with the debt target for that year or, at least, to verify that the increase in net EDP indebtedness forecasted by the Region is consistent with the type of debt operations permitted by the 2018 debt target.</p>	24/20/2017	Several Regions	<p>Aragon, Asturias, Balearic Islands, Cantabria, Valencia, Castile -La Mancha, Castile and Leon, Extremadura, Rioja, Madrid, Basque Country, Murcia, Catalonia and Navarre.</p>	<p>Regional budgets or draft regional budgets</p>	<p>Commitment to compliance: Castile-La Mancha, Basque Country, Murcia, Castile and Leon, Aragon, Rioja, Navarre, Extremadura, Cantabria, Asturias and Valencia Explanation: Madrid and Balearic Islands</p>	<p>Castile La Mancha: The financial report of the 2018 draft budgets includes the cause and amount of the net variation in its indebtedness. For the 2019 Budget, it will include adequate and sufficient information to verify compliance with the debt target.</p> <p>Basque Country: The explanatory memorandum of its 2018 draft budget includes the financing requirement, which is the maximum net increase in indebtedness envisaged for 2018. It also notably includes the commitment of the Government of the Basque Country to comply with all fiscal rules.</p> <p>Murcia: The 2018 Draft Budget incorporates the report of the ICREF (Institute of Credit and Finance), where it can be verified that the increase in net EDP indebtedness foreseen by the Region is consistent with the type of debt operations permitted by the 2018 debt target.</p> <p>Castile and Leon: Without prejudice to the references to compliance with the debt target in the different volumes of the 2018 draft budgets, it reiterates its commitment to respect the agreed limits on indebtedness and its willingness to offer maximum transparency and comply with the recommendation made.</p> <p>Aragon: It informs of the inclusion in the preamble of the 2018 budgets of its intention to comply with the debt target set, given that the expected increase in net indebtedness is consistent with the increases in debt allowed by the system for setting the aforementioned targets.</p> <p>Rioja: It undertakes to incorporate this information in the Economic-Financial Report accompanying the draft Budgets from 2018 onwards.</p> <p>Navarre: It indicates that it includes information on the debt target in the 2018 draft budget and that, when the 2018 budget is approved by the Parliament, and with the aim of complying with AIReF's recommendation as well as providing maximum transparency to the budgetary information, it will expand the content of the report, including the data of the scenario that has finally been consolidated with respect to the formalisation or non-formalisation of debt operations.</p> <p>Extremadura: The General Report of the 2018 Draft Budget includes a separate section on the evaluation of budgetary stability targets, the expenditure rule and government debt targets</p> <p>Cantabria: It has incorporated an appendix in the 2018 draft budgets entitled "Report on the Presentation of the 2018 Draft Budgets to the Parliament of Cantabria", which includes information on compliance with the debt target.</p> <p>Madrid: It notes that the problem in including information on compliance with the debt target in the budget is that the Ministry does not readjust the targets set in the current year current when extraordinary authorisations of indebtedness occur, a dynamic that prevents Madrid adequately reflecting on compliance with the target set for the year that is budgeted since the initial balance (the end of the previous year) has not yet been readjusted. It specifies that it has never been indebted above the authorisations of the National Government; therefore, it has complied with the debt targets. However, AIReF understands the difficulties in reflecting on compliance with the debt target as a result of the design of the system for setting debt targets. For that reason, the recommendation was simply aimed at reflecting that the Region's net debt forecast is consistent with the debt increases allowed, a priori, by the debt target. The aim is to provide as much transparency as possible to this fiscal rule.</p> <p>Asturias: It complied with this recommendation in the Economic-Financial Report that accompanied the 2018 Draft Budget and was rejected by the General Assembly.</p> <p>Valencia: It indicates that its 2018 budget law indicates the maximum limit for indebtedness, taking into account the regional debt target and that, although it does not include a specific section in the Economic-Financial Report, in the section on financial operations it refers to the 2018 indebtedness.</p> <p>Balearic Islands: It explains that it made some calculations, which were not included in the 2018 budget, to verify that the level of expected expenditure allows for compliance with the debt target and that, for the first time since EDP, resulted in a reduction in the volume of the debt in absolute terms, which would ensure compliance with the debt target. Notwithstanding this compliance, AIReF considers that, in the interest of transparency, information should be included to show that the expected debt operations are consistent with the debt target.</p>

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on the Macroeconomic Forecasts of the 2018 Draft Budgetary Plan.						
Adoption of measures to correct forecasting bias. To adopt and publish the measures necessary to correct the significant biases observed in the autumn public consumption forecast for the following year.	16/10/2017	CA	MINECO	Practical application	Explanation	<p>The MINECO indicates that the confidence bias has been reduced in recent years, currently lower than the 95% interval. From a practical point of view, the solution would be to take the forecast in order to approximate the consensus interquartile range; the forecast would be adjusted so that it is at the end of the interquartile range closest to <b>Government's original forecast</b>.</p> <p>However, before publishing and adopting this solution, they warn that it is necessary to consider if the change is justified, because in absolute terms the Government's forecasting error is less than that of the consensus.</p> <p>AIReF takes the view that the behaviour of public consumption depends on a mostly discretionary <b>component and that should be consistent with the components of the Public Administration's non-financial revenue and expenditure included in budget forecast</b>.</p>
Reports on the establishment of individual 2018-2020 budgetary stability and government debt targets for the Autonomous Regions						
Restrictions of the expenditure rule. Highlights the restriction imposed by the application of the expenditure rule for many Regions	25/07/2017	Regions	MINHAFP	Proposal of individual targets for Regions	Explanation	<p>The MINHAFP is committed to the in-depth analysis of the expenditure rule, for the purpose of which two working groups have been set up within the CPFF and the CNAL, always in accordance with EU regulations. AIReF insists that the stability targets must be set by taking the expenditure rule into account, as required by Article 15 of the LOEPySF, therefore the proposed targets should demonstrate the restriction imposed by the application of the expenditure rule for each of the Regions.</p>
Regional distribution of deficit target. The estimation of the resources of the financing system for the horizon envisaged in the proposal is included, as well as its distribution by Regions.	25/07/2017	Regions	MINHAFP	Proposal of individual targets for Regions.	Explanation	<p>The MINHAFP <b>responds that the SP includes a forecast of the PAS' income that spans a time horizon of three years</b>, which serves as the basis for setting the deficit and debt targets during this time.</p> <p>However, AIReF highlights the relevance of this information for each of the Regions and that its absence supposes a lack of substantive information to inform the distribution of targets proposed by the MINHAFP; and in addition, the SP makes no mention of the distribution by Regions.</p>
Regional distribution of deficit target. Include 2017 year-end forecast	25/07/2017	Regions		Proposal of individual targets for Regions.	Explanation	<p>The MINHAFP responds that it publishes all the available information on both budgetary execution and earnings on its website each month, as well as any other relevant developments during execution, for the General Government, which allows exhaustive monitoring of budgetary execution throughout the year at all times and for each sub-sector.</p> <p>The information published monthly by the MINHAFP refers to data executed and not to closing forecasts. AIReF considers that the year-end forecast constitutes substantive information in order to inform target distribution.</p>
Regional distribution of debt target. Include a medium-term debt sustainability analysis in upcoming proposals for horizontal distribution of stability targets, in view of their establishment.	25/07/2017	Regions	MINHAFP	Proposal of individual targets for Regions.	Commitment to compliance	<p>The MINHAFP says that it will consider this recommendation for future agreements. AIReF recognises the complexity of this analysis and the limited time frame available for inclusion in the current proposal, but values the Ministry's response to take it into account in future proposals.</p>
Regional distribution of debt target. Limit exceptions to rectification of initial targets. Progress towards limiting the exceptions that allow rectification of the initial targets at the end of the year, which began in 2016 and 2017, clearly defining the exceptions and adjusting to the initially established assumptions throughout the year.	25/07/2017	Regions	MINHAFP	Vertical and horizontal target distribution agreements	Commitment to compliance	<p>The MINHAFP indicates that it will take the recommendation into consideration and qualifies that although it has made a change in the wording, the essential factors included in the enlargement clause of the government debt target remain the same: reclassifications that entail an increase in the EDP debt of the Regions referring to previous years and the financing of deficit deviations from previous years to avoid an increase in commercial debt. It is expected that the impact of these factors will be reduced in the future due to the improvement of fiscal balances, provided that the calendar for approving targets is as normal. These clauses essentially aim to include the factors that are not within the discretion of the Regions themselves during the corresponding year.</p> <p>AIReF understands that we must continue in the direction of limiting and clearly defining the exceptions, which would help to reduce uncertainty, adapt budgetary planning and monitoring of the debt target.</p>



Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on expected PA compliance with the budgetary stability targets, government debt targets and expenditure rule						
Vertical distribution of deficit target. Establish and publish a clear methodology for the vertical distribution of the deficit target, taking into consideration the financial situation of the various sub-sectors, providing rigour, realism and enforceability to the establishment and subsequent fulfilment of the stability targets.	17/07/2017	PAs	MINHAFP	Agreement on the vertical distribution of targets	Explanation	The MINHAFP indicates that article 15.2 of the LOEPySF already includes a clear methodology for the vertical distribution of the deficit target. In any case, these targets must be consistent with the path set by the European Commission in the framework of the EDP and once outside the corrective arm they should be consistent with the structural adjustment required by the preventive arm of the SGP. AIReF reiterates the need for transparency in vertical target distribution and to base calculations in order to ensure coherence in the system of fiscal rules to ensure its effectiveness and to adopt a comprehensive vision when analysing the fiscal discipline framework.
Public expenditure review. The expenditure review processes set in motion by the different PAs, jointly or individually, lead to effective efficiency gains and should be permanently incorporated into budgetary practice.	17/07/2017	PAs	MINHAFP and all the Regions	Practical application Spending Review	Commitment to compliance	<p>The MINHAFP shares the recommendation, and emphasises that it is collaborating intensively with the Spending Review to which the Government committed itself, and that it will collaborate as much as possible so that the review processes lead to effective efficiency gains and are incorporated permanently into budgetary practice. The expenditure review processes planned by the Regions are integrated into the EFP and APs, and will be incorporated into the budgetary practices of the Regions to the extent that the nature and aims of the measures permit and respecting the margin of autonomy of the Regions.</p> <p>All Regions have shown interest in collaborating with AIReF's Spending Review, being committed to provide the necessary data and participate in the working groups created for that purpose. In addition: Aragon says that it has already implemented measures to achieve efficiency in current expenditure. The Canary Islands have been applying more than extraordinary and short-term measures to aspects of the rationalisation policy in accordance with the principle of efficiency.</p> <p>Asturias continuously analyses public expenditure with the aim of introducing improvements in management and efficiency and also participates in the Spending Review launched by AIReF with the purpose of analysing the effective application of the results into budgetary practice.</p> <p>Cantabria has commissioned AIReF to carry out a study on the viability of regional enterprises and public foundations, in addition to participating in the Spending Review launched by AIReF.</p> <p>Catalonia includes a 2nd additional provision in its 2017 budget law, a cost review process which involves all departments of the Catalan Government and is expected to span from 2017 to 2020.</p> <p>Murcia has been carrying out a Spending Review with the aim of saving.</p> <p>Galicia highlights that since 2009 the budgeting processes have started from zero and that from 2018 it will add the result of the Spending Review led by AIReF to the expenditure on pharmaceutical prescriptions and aid for the promotion of employment.</p> <p>Balearic Islands , the measures that it has adopted are aimed at improving efficiency and guaranteeing the sustainability of spending, such as the healthcare expenditure rule, electronic administration and participating in the AIReF working group on the Spending Review</p> <p>Rioja has implemented numerous measures in this regard, notably the strengthening of the Budgetary Control Office, the area of Recruitment, participation in General State Administration initiatives to improve efficiency in pharmaceutical expenditure and the creation in 2017 of a working group for the review of the entire social services system of this Region and another for the review of administrative structures.</p> <p>Basque Country already uses measures for expenditure rationality, effectiveness and efficiency. Aside from <b>the structure of the Region's departments, especially the departments of Economy, Finance and Budgets</b>, it has the Economic Control Office.</p> <p>Castile and Leon states that it participates in the working group created by AIReF to carry out an evaluation of public expenditure.</p> <p>Valencia affirms that it is continuing with the Spending Review processes and is avoiding measures that entail a discretionary increase in expenditure.</p> <p>Madrid indicates that it has complied with the recommendation through its inclusion in the working group on the Spending Review launched by AIReF on June 30, at a meeting attended by the Counsellor.</p>

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
CA preventive measures. Monthly monitoring of execution. Give coverage to the gap in the LOEPySF regarding the application of the same to the CA in cases of risk of non-compliance with the <b>targets set. In particular, to implement supervision of the CA's</b> execution through monthly monitoring carried out by the MINHAFP of how they are implementing the tax measures adopted and their effect on the stability target, warning of the risk of deviations that could occur at year end. This monitoring must be carried out with the greatest possible transparency, sending the reports prepared to Parliament and AIReF.	17/07/2017	CA	MINHAFP	Practical application	Explanation	The MINHAFP responds that currently all available data that enables adequate monitoring with the aim of warning of the risk of the deviations that may occur at the end of the year are published monthly. All this information in such a short period of time allows for continued analysis of execution trends and assessing whether it is necessary to adopt measures to ensure compliance with budgetary stability targets. Its effectiveness is exemplified with the measure of instalment payments adopted in 2016, which together with other measures allowed 2016 to be ended below the target set. AIReF emphasises the need for a transparent monitoring of the execution of the tax measures adopted and their effect on the stability target in order to avoid possible deviations.
Sustainability of SSF. The Toledo Pact Commission should identify potential measures aimed at guaranteeing the financial equilibrium and sustainability of the Social Security System, whose impact assessment and quantification of will serve as the basis for making future decisions.	17/07/2017	SSF	MINHAFP/MEYSS	Toledo Pact	Commitment to compliance	MINHAFP: This recommendation is outside of its competence. MEYSS: The Toledo Pact is an instrument of great importance within the Social Security System that performs its function through two mechanisms. One is the Permanent Commission of the Toledo Pact within the Congress of Deputies. The second through social dialogue between the Government and economic and social interlocutors. Firstly, the MEYSS, through the Minister, the Secretary of State for Social Security and the General Directorate for the Regulation of Social Security have explained and sent all the documentation that has been requested, in order to prepare their recommendations. In the area of social dialogue, progress is also being made. It is essential to finalise this stage of debate and negotiation before the National Government adopts concrete measures.
Working group on the expenditure rule. Streamline the necessary actions for the constitution of the working group announced in the CPFF for the analysis of the expenditure rule and identify the problems that hinder the effective application of this fiscal rule.	17/07/2017	Regions / LGs	MINHAFP	CPFF / CNAL	Commitment to compliance	The MINHAFP says that the Government is committed to the in-depth analysis of the expenditure rule and has stated this in the CPFF and the CNAL. In addition, working groups are being established in this regard. The non-execution of a specific project, and the possibility of not offsetting the reduction in expenditure with the rate of change of the expenditure rule , which would result in the reduction of their expenditure ceiling, have been identified as a problem in the smaller LCs. Precisely for these reasons AIReF considers it necessary to immediately resolve the specific problems faced in practical application.
New heading - calculation of expenditure rule. The MINHAFP should remove the new heading "Transfers of expenditure capacity of other Public Administrations" from the questionnaire for preparing the Economic-Financial Plan of the Canary Islands or, in the case of being justified by the particular nature of an operation and being compatible with the LOEPySF, this assumption is incorporated, for general knowledge, into the "Guide for determining the expenditure rule of the Regions	17/07/2017	Regions	MINHAFP	Guide for determining the expenditure rule of the Regions	Explanation	The MINHAFP responds that the heading can not be deleted, since it responds to the transfer of expenditure capacity between Regions. AIReF insists that it is not possible to transfer expenditure capacity and that, only under the assumption that this concept is compatible with the LOEPySF, it should be incorporated into the Guide for determining the expenditure rule of the Regions.
Regional distribution of debt target. When the Regions incur a deficit lower than the stability target set, the debt target does not include the entirety of the stability target, but rather adjusts to the financing needs obtained at the end of the year.	17/07/2017	Regions	MINHAFP	Practical application	Explanation	The MINHAFP does not consider it possible or convenient to follow this recommendation. For several reasons: the individual debt targets must be coherent with the approved provisions (art 15 LOEPySF); the government debt target of each Region must be consistent with its individual deficit target; the individual targets are set at the middle of the year and only the first report on the level of compliance is available (April) and this may change with respect to October; the indebtedness target is formulated in maximum terms; there are no incentives in the current context in the Regions to exhaust their debt margin. AIReF considers that although a priori the debt target may be assessed in line with the stability target, at the time of measuring compliance, debt increases for an amount exceeding the deficit incurred during the period should not be allowed when this is lower than the stability target set. Given that the MINHAFP is not doing this, it is allowing debt margins higher than the actual financing requirements, which does not contribute to monitoring debt and, therefore, to the effectiveness of this fiscal rule.
Coercive measures of article 25 of the LOEPySF. Promote the homogeneous application and interpretation of article 25 of the LOEPySF by all the financial protection agencies of the LGs , as a coercive measure that also avoids repeated non-compliance	17/07/2017	LGs	MINHAFP	Practical application	Explanation	The MINHAFP informs that each year the regional supervisory bodies are asked to provide statistics on the responses provided by the LCs to the requirements made to those that, by omitting approval or for non-compliance with an EFP, fall within the subjective scope of article 25 LOEPySF. The data provided are published in the Information Center.

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Coherence of APs and EFP in LGs Arbitrate the procedures necessary to ensure the consistency of the limits to compliance with fiscal rules between APs and EFPs for the same years, so that when one of these documents needs to be approved with the other already in existence, the competent body takes the plan already approved into account.	17/07/2017	LGs	MINHAFP	Royal Decree-Law 17/2014	Explanation	The MINHAFP informs that these procedures already exist and are being applied by the General Secretariat for Regional and Local Financing (SGFAL), in accordance with art. 25 of Royal-Decree Law 17 / 2014, which establishes that the Regions should present and agree upon an AP with this Ministry that is consistent with the stability and government debt targets and with the EFP submitted, if applicable. In the context of the LCs, this is difficult to approve due to the different time horizons of the EFPs and the APs, as well as the different targets of both Plans, however, the MINHAP reminds the LCs that the Plans should be coherent and share the same forecasts.
EFP targets. The City Councils of Madrid, Barcelona and Palma de Mallorca and the Provincial Council of Valencia should implement the measures of article 25 of the LOEPySF as they do not have an EFP in force for 2017, in the case of Madrid, or present a risk of non-compliance with the EFP target, in the rest	17/07/2017	Several LGs	City Councils of Madrid, Barcelona and Palma de Mallorca and the Provincial Council of Valencia	LOEPySF	Commitment to compliance: City Council of Barcelona Explanation: City Council of Madrid and Provincial Council of Valencia	The City Council of Madrid approved the 17-18 EFP on March 29, 2017 the MINHAFP rejected it on April 3, although it has approved non-availability agreements to comply with the provisions of the EFP while the contentious administrative appeal against non-approval of the EFP is resolved. The City Council of Barcelona intends to comply with the fiscal rules in 2017. If a deviation that would jeopardise compliance with the fiscal rules is observed at any time it would adopt measures, basically credit withholdings. Additionally, as regards the expenditure rule, it is necessary to take into account the additional provision 96 of 2017 GSB on the LC surplus of 2016. AIReF reiterates that this institution must comply with the limits set in its EFP regarding fiscal rules. Provincial Council of Valencia believes that the coercive measures of art. 25 need not be applied, since as it does not anticipate non-compliance with any fiscal rules when settling the 2017 budget. The scarce non-compliance with the EFP target at settlement and a lower surplus than that foreseen in the Plan, does not entail risk of non-compliance with the balanced position or budget surplus. AIReF reiterates that this institution must comply with the limits set in its EFP regarding fiscal rules. AIReF stresses the need for the application of art. 25 of the LOEPySF, in the event of non-compliance with the EFP in force.
Compliance with fiscal rules at year-end. The City Councils of Valencia, Zaragoza, Bilbao and Gijón, the Provincial Council of Barcelona and the Provincial Council of Seville, the Island Council of Tenerife and the Council of Mallorca, should adopt implementing measures in order guarantee compliance at the end of the year.	17/07/2017	Several LGs	City Councils of Valencia, Zaragoza, Bilbao and Gijón, Provincial Council of Barcelona and Seville, Island Council of Tenerife and Council of Mallorca	Concrete measures	Explanation: City Council of Bilbao, Zaragoza, Valencia, Council of Mallorca Commitment to compliance: City council of Gijón, Provincial Council of Seville, Barcelona, Island Council of Tenerife	The City Council of Zaragoza states that, from its data, there does not appear to be a risk of non-compliance with the fiscal rules: budgetary stability and expenditure rule in 2017. There is a deviation in the budgetary stability target with respect to the 2017 EFP, and only with respect to that amount and not with the stability target itself. The deviation has occurred due to causes unrelated to municipal management. We conclude that if the operation of financing the payment of judgements, FIE 2016, had been carried out in time, the financing capacity would be higher than that set in the EFP in both years. AIReF reminds this institution that it must comply with the limits set in its EFP with respect to fiscal rules. The City Council of Bilbao is compliant with Provincial Law 5/2013, with the EFP prepared for this purpose and which was been approved by the Provincial Council of Biscay. AIReF understands that this provincial law is not consistent with the LOEPySF, which is why this circumstance has been brought to the attention of the MINHAFP. The City Council of Gijón has adopted expenditure containment measures with the aim of complying with the recommendation. The Provincial Council of Seville adopts a series of measures in its firm intention to comply with the target of the 2017 Expenditure Rule: limitation of 2016 remnants; monitoring recruitment; multi-year monitoring; monitoring of regional organisations and companies; and if necessary a non-availability agreement (NAA). The Provincial Council of Barcelona informs of its intention to comply with the fiscal rules as they are carrying out intensive monitoring of expenditure trends. The Island Council of Tenerife reiterates its commitment to comply with the recommendation, with periodic monitoring of expenditure execution, with special emphasis on the containment of computable expenditure for the purposes of the expenditure rule. The City Council of Valencia states that it has applied measures to adjust execution to compliance with the expenditure rule, as it expects to comply, in the absence of more up-to-date information. The Council of Mallorca states that it monitors compliance with the expenditure rule, but that it will not be certain of its compliance until settlement and that, in case of non-compliance, it intends to follow the legally established procedures and AIReF's recommendations.

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Approval of EFP. The City Council of Murcia should streamline the procedures for approval of the corresponding EFPs that establish the limits of compliance with fiscal rules in 2017	17/07/2017	City Council of Murcia	City Council of Murcia	2017/2018 EFP	Compliance	The City Council of Murcia should send the resolution of the SGFAL by which the 2017/2018 EFP of the City Council of Murcia is definitively approved.
Debt reduction. The City Council of Malaga should adopt debt reduction measures to place the debt-to-current income ratio below the limit of 75%.	17/07/2017	City Council of Malaga	City Council of Malaga	Containment of expenditure and early amortisations	Commitment to compliance	The City Council of Malaga, following the cost containment measures included in its AP, had expected to reach the target of 75% debt by 2020. However, carrying out early amortisation allows it to advance this compliance to the end of 2018.
Compliance with fiscal rules. The City Councils of L'Hospitalet de Llobregat and Valladolid should monitor execution this year to ensure compliance with the fiscal rules at year-end.	17/07/2017	Several LGs	City Councils of L'Hospitalet de Llobregat and Valladolid	Practical application	Commitment to compliance: City Council of L'Hospitalet, City Council of Valladolid	The City Council of L'Hospitalet already monitors budgetary execution, coinciding with the quarterly reporting of information to the MINHAF, which is reported quarterly to the Local Government Assembly. To ensure compliance with the fiscal rules at the end of the year, a specific section is added in the monitoring reports. The City Council of Valladolid informs that it adopts the necessary measures through its participation in the monitoring of revenue and expenditure, as a result of which the forecast for the third quarter is compliance.
Expenditure rule. Take the necessary actions to ensure that expenditure execution allows for compliance with the expenditure rule at year-end. In this line, any discretionary measure for increasing expenditure should be reviewed.	17/07/2017	Balearic Islands	Balearic Islands	Practical application	Commitment to compliance	Balearic Islands indicates that the approved budget complies with the fiscal rules and if unforeseen expenditure arises this would be covered by contingency fund or withdrawn from another loan, in addition it carries out monitoring of budgetary execution to avoid any contingencies. However, in the case of the expenditure rule, it warns of the difficulty in performing the calculation for the Regions due to a methodological issue and not being able to estimate amounts that are included in the calculation.
Report on the Economic-Financial Plans (Valencia, Galicia, Catalonia, Cantabria, Canary Islands, Aragon, Andalusia) and Update reports on the Economic-Financial Plans (Murcia)						
Expenditure rule. Adopt the necessary actions to ensure that expenditure execution of allows for compliance with the expenditure rule at year-end, including the adjustment of the scenario to said execution in the EFP. In this line, any discretionary measure for increasing expenditure should be reviewed	17/07/2017	Andalusia	Andalusia	Practical application	Compliance	Andalusia has amended its expenditure (and income) scenario in its EFP, reducing its forecast, and changed the expenditure rule questionnaire, foreseeing compliance with the rule. Although, it does not eliminate the measures for greater expenditure (it maintains the recovery of the 35 hour work week).
Credit withholding for compliance with fiscal rules at year-end. Application of credit withholdings for the amount that allows for coverage of the deviations observed in execution at any time.	17/07/2017	Several Regions	Aragon, Valencia, Cantabria, Murcia, Extremadura	Credit withholdings	Explanation: Aragon, Valencia, Murcia Compliance: Cantabria	Aragon says that the opportunity to apply credit withholdings if needed will be assessed. AIReF points out that there seems to be proximity to the feasibility of compliance with the stability target. Valencia argues that given its underfunding by the RFS it is impossible for it to address the basic obligations of the fundamental public services and at the same time apply credit withholdings. It also notes that, in this line, it was told that it should review any discretionary measure for increasing expenditure. AIReF confirms that credit withholdings are not mentioned in the EFP and that it maintains measures for increasing expenditure. Cantabria is already applying credit withholding on several items (agreement of the Governing Council of 8/6/2017) and, if necessary, will assess the possibility of making any additional withholdings. Extremadura, instead of credit withholdings, has preferred to adjust the budget via income, efficiency in EU funds and on the expenditure side, as foreseen it in its closing order, and does not mention possible credit withholdings in its EFP. However, it does not rule out declaring unavailable credits if the lags in the pace of certification of EU fund expenditure were much lower than expected Murcia does not plan to carry out withholdings because it points out that the increase in income of 169 million due to the approval of the 2017 GSB in June will allow it to offset any deviations that may arise in execution and that the margin that may arise for deductions will be allocated to the 1% increase in employee compensation.
Explore existing margins in terms of tax regulation competences: Aragon: mainly, in the TCMT and in the Hydrocarbons Tax. Cantabria: Including margins in tax benefits Murcia: mainly in the TATDLA and the TCMT.	17/07/2017	Several Regions	Aragon, Cantabria, Murcia	Tax regulations	Explanation	Aragon responds that the existing possibilities of exercising regulatory competences will be explored. Cantabria says that, in the preparation of the 2018 Preliminary Draft Budget, it will study this possibility Murcia: although AIReF recommended measures in TATDLA and TCMT, the measure that the Region has (among others) on TATDLA is negative (decrease in income), as included in its budget law: for 2017 it foresees a new reduced tax rate in the TAT of 1%, and extends the reduced rate of 0.1%, in the form of DLA.



Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Actions stemming from previous recommendations. To reflect the actions stemming from the previous recommendations in the EFP submitted to the CPFF.	17/07/2017	Several Regions	Aragon, Valencia, Cantabria	Practical application	Explanation: Valencia Compliance: Cantabria Commitment to compliance: Aragon	Aragon did not explicitly respond to this question although the content of its EFP recognises its commitment to compliance with the recommendations. Valencia can not implement the recommendation to contain expenditure. AIReF confirms that it maintains measures for increasing expenditure. Cantabria says that this recommendation has been fulfilled since it is included in the text of the EFP.
Comprehensive review of regional expenditure. Implement targeted actions aimed at the comprehensive review of regional expenditure with special emphasis on fundamental public services so that they can adjust the scenario and guarantee compliance with the target and the expenditure rule.	04/07/2017	Murcia	Murcia	Practical application/ 2017-18 EFP	Explanation	Murcia: notes that in relation to the initiation of expenditure review processes, the measures of the EFP and the AP are permanently incorporated into budgetary management.
Report on the EFP of the Autonomous Region of Extremadura						
Co-financed expenditure, execution forecasts and expenditure certification. Incorporate additional information that endorses the forecasts for the certification of co-financed expenditure with a detailed schedule of execution and expenditure certification forecasts which facilitate their monitoring and control, as well as the adoption of the relevant decisions in the face of possible deviations, into the Plan that is presented to the CPFF, with respect to the 2017 scenario.	26/06/2017	Extremadura	Extremadura	2017-18 EFP	Compliance	The 2017-2018 EFP of Extremadura approved by the CPFF has taken this recommendation into account.
Comprehensive review of regional expenditure. To implement actions aimed at the comprehensive review of regional expenditure, studying strategic aspects, management and efficiency, among others.	26/06/2017	Extremadura	Extremadura	2017-18 EFP	Compliance	The 2017-2018 EFP of Extremadura approved by the CPFF has taken this recommendation into account.
Report on the Update of the Stability Programme of the Kingdom of Spain 2017-2020						
Calculation of target distribution between administration levels. Expenditure requirements, income sufficiency and the expenditure rule should be incorporated into the process of distributing the budgetary stability target between the different levels of government, avoiding the inconsistencies observed between the individual application of the LOEPySF to each administration and the joint evaluation of the PA sector. In particular, take into account the local surplus estimate at the time of setting targets, without waiting for it to offset deviations in other sub-sectors at the end of the year.	10/05/2017	All PAs	MINHAFP	Agreement of the Council of Ministers	Explanation	According to MINHAFP with regard to setting the State's target, it indicates that the formulation of the non-financial expenditure limit must be consistent with the stability target AIReF <b>notes that its recommendation does not refer to approval of the State's non-financial expenditure</b> , which must be consistent with the stability target, but refers to the distribution of the total target among the different sub-sectors. In this process, the lack of recognition of the local surplus means that deviations occur in other sub-sectors, as observed in 2017 with the target approved for the CA.
1st Transitional Provision of the LOEPySF. The corresponding legal mechanisms should be used to review the 1st Transitional Provision of the LOEPySF in such a way that it foresees demanding but realistic paths of convergence to the reference levels established in article 13 of the LOEPySF.	10/05/2017	All PAs	MINHAFP	Review LOEPySF	Explanation	The MINHAFP will proceed with the analysis and study of the recommendation
Report on the Initial budgets of the PAs: LGs 2017						
Calculation of target distribution between administration levels. Incorporate expenditure requirements, income sufficiency and the expenditure rule into the process of distributing the budgetary stability target between the different levels of government, avoiding the inconsistencies observed between the individual application of the LOEPySF to each administration and the joint evaluation of the PA sector. In particular, take into account the local surplus estimate at the time of setting targets, without waiting for it to offset deviations in other sub-sectors at the end of the year.	25/04/2017	All PAs	MINHAFP	Practical application	Explanation	With regard to setting the budgetary stability target between the different levels of government, the MINHAFP indicates that the formulation of the non-financial expenditure limit must be consistent with the stability target. AIReF reiterates the need to ensure coherence in the system of fiscal rules to ensure its effectiveness and to adopt a comprehensive vision when analysing the fiscal discipline framework.

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Procedure in case of non-compliance with fiscal rules. Arbitrate a procedure that, in compliance with the constitutional framework, allows the unblocking of situations of non-compliance with any fiscal rule not duly covered by an approved and effective EFP, and that, as long as such procedure does not exist, applies and promotes the application of the corrective and coercive measures established by the LOEPySF for cases of non-compliance not covered by an EFP.	25/04/2017	LGs	MINHAFP	LOEPySF	Explanation	The MINHAFP indicates that the procedure followed is that established in the LOEPySF. However, since 2014, each year (at the end of July) and once a representative sample of the consolidated settlement data corresponding to the previous year is obtained, the following actions are carried out through the SGFAL: - Cross examination of the settlement data (with adjustments in national accounting terms) with the data of the computer application "Economic-Financial Plans of Local Corporations" (PEFEL), in such a way that it is determined whether or not the corporation has an EFP and, if it has one, whether or not it has been complied with and, in each case, the measures to be adopted. - Mass sending of the information: i) individually to the entities under the protection of the MINHAFP and ii) the individualised information of the territorial scope of each financial supervisory body so that it follows the same procedure as described in section ii) above. - In September the response data is monitored. As a result, in 2016 2,581 requests were made, 661 by MINHAFP, and 1,920 requests to the different financial supervisory bodies, among which are requests for NAA and EFP requirements. These requirements extend beyond observed non-compliance, given that coercive measures are requested in cases where it is required, such as the referral of NAA in application of article 25.1 a) of the LOEPySF. AIReF insists that it would be necessary to envisage a procedure to unblock situations where non-compliance with any fiscal rule does not have an EFP approved and in force.
Limits to compliance with fiscal rules. The MINHAFP and / or the respective supervisory body should carry out the necessary actions to ensure consistency between the limits to compliance with the fiscal rules established in the APs and in the EFPs, when these are in effect in the same years.	25/04/2017	LGs	MINHAFP	Fiscal rules	Explanation	The MINHAFP responds that the APs and the EFPs have a different duration, and do not coincide exactly in the fiscal rules that they take into account, although it is true that both Plans must be consistent insofar as they reflect economic planning, therefore they should share the same financial and budgetary forecasts during their validity, an issue that MINHAFP reiterates to the L Cs. However, precisely because these instruments have different time horizons, in the cases of LCs that are in a negative financial situation, the intended target may not be achieved during the years in which their validity coincides. AIReF understands that the duration of both Plans may be different as indicated by the MINHAFP; however, in the years in which both targets coincide they must be the same.
Working group on the expenditure rule. Create the working group for the review of the expenditure rule, where the methodological elements necessary for its planning, monitoring and evaluation of compliance are clearly defined, and that, if said review is effective, expands knowledge of the conditions and criteria for calculation and application.	25/04/2017	LGs	MINHAFP	Amendment of LOEPySF	Commitment to compliance	The MINHAFP shares the recommendation made by AIReF. In fact, as indicated in the 2017 Budgetary Plan, it is foreseen that during the current year, on the occasion of the publication of the new European regulations on expenditure rules for the Member States of the Euro zone, the Ministry, in collaboration with the rest of the Administrations, shall carry out an analysis of the expenditure rule contained in the LOEPySF, in order to adapt the Spanish standard to European regulations. On the other hand, it is worth remembering that two guides were published for the calculation of the expenditure rule for the Regions and the LGs.
Calculation of the expenditure rule in the LGs. Incorporate, making all the necessary modifications, the calculation of the expenditure rule into the information that the LGs communicate on the main budgetary lines and approved budgets, as well as an analysis of the consistency of this rule with the balance or surplus situation that is deducted from the planned income and expenditure scenario, evaluated in national accounting terms.	25/04/2017	LGs.	MINHAFP	Modification of Order HAP/2105/2012 on information provision in accordance with the LOEPySF	Explanation	The MINHAFP believes that the recommendation has no legal basis, and that in the current circumstances it is not feasible for the IGAE to individually verify LCs' <b>compliance with the expenditure rule</b> . However, AIReF reiterates that the LOEPySF does not exclude any PAs from the calculation of the expenditure rule in any of the phases of the budget cycle and the possibility of not communicating it in the initial budget was a modification introduced by Order HAP/ 2085/2014, by which the original text of 2012 was modified. In addition, verification of compliance is the responsibility of the financial controller of the LG, through its evaluation reports. Without knowledge on the calculation of the expenditure rule in the initial phases of the budget cycle, the possibility of application of measures for early detection of non-compliance for avoidance purposes makes no sense.

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Regulatory modifications for compliance with fiscal rules. As a guarantee of the long-term sustainability of the LGs the MINHAFP should promote the necessary regulatory changes to equalise treatment in terms of preventive and corrective measures for the three fiscal rules, in particular, the expenditure rule with the other targets.	25/04/2017	LGs	MINHAFP	LOEPySF	Explanation	The MINHAFP reiterates that the LOEPySF regulates the elements of budgetary stability and financial sustainability, including the expenditure rule, as well as the preventive, corrective and coercive measures implemented in three different sections. In this sense, it responds that any regulatory initiative aimed at improving the regime of preventive and corrective measures for non-compliance with the expenditure rule must take into account the particular legal status of the current regime in that regard. AIR <sup>e</sup> F emphasises the desirability of equalising measures in the event of any non-compliance with fiscal rules, considering that the MINHAFP is responsible for driving the relevant regulatory changes.
Regulatory development on debt limit. Promote the necessary regulatory developments to define the debt limit that would operate at the individual level in the local sphere and whose non-compliance would result in the application of the measures provided for in the LOEPySF.	25/04/2017	LGs.	MINHAFP	Local Finance Law	Explanation	The MINHAFP responds that the determination of the individual debt limits that would operate at the local level, whose non-compliance would lead to the application of the measures provided for in the LOEPySF, has a series of methodological limitations that lie in the difficulty of knowing the GDP levels of each LG. However, the limits of indebtedness applicable to each of the LCs are included in the consolidated text of the Law regulating Local Finances, considering what is established in the final thirty-first provision of the 2013 GSBL as regards long-term credit operations to finance investments. These limits are compatible with the overall target for the LG sub-sector. AIR <sup>e</sup> F emphasises the importance of defining, in the regulations, the debt limit that would operate at an individual level under the LOEPySF, in order to verify their compliance in the reports prepared by the local financial controllers that trigger the correction mechanisms, as there are other alternatives to using local GDP as a reference.
Non-compliance with the 2015 expenditure rule. Having failed to comply with the 2015 expenditure rule and a lack of an EFP approved and in force to date, it is recommended to adopt the measures provided for in article 25 of the LOEPySF (as long as there is no EFP approved).	25/04/2017	Several LGs.	City Council of Madrid, City Council of Seville	Art. 25 of the LOEPySF	Explanation	The City Council of Madrid approved an EFP 2017-18, not approved by the SGFAL, for exceeding the expenditure limit allowed by the expenditure rule, which urges it to approve several Non-Availability Agreements (NAA). The City Council filed an appeal under administrative litigation against the Resolution of the SGFAL, requesting the suspension of the effectiveness of the NAAs adopted as a precautionary measure. On the other hand, to ensure compliance with all fiscal rules at the end of the year, the City Council maintains the measures set out in the EFP 2017/2018, for which the necessary negotiations will be carried out. To date, this City Council still does not have an EFP to guarantee compliance with the fiscal rules by the end of 2017. The City Council of Seville indicates that the expenditure rule, upon which the expenditure limit for 2017 was based, was not calculated on the basis of the computable expenditure of the previous year, but on the expenditure rule itself, thus avoiding the excess of the computable expenditure. On the occasion of the execution of the first quarter of 2017, it estimated a situation of compliance with the budgetary stability target and the expenditure rule at the end of 2017. However, the Municipal Controller issued a report, advising to postpone the decision of the measures at a time when the progress of execution allows for a more foreseeable closure forecast. Art.25 of the LOEPySF has been applied by the City Council of Seville by approving the budgets with the expenditure reduction necessary to guarantee compliance.
Non-compliance with EFP. With an EFP approved and in force (whose commitments had not been complied with in 2016 by a narrow margin, and non-compliance expected in 2017) to adopt the measures foreseen in the LOEPySF.	25/04/2017	Provincial Council of Valencia	Provincial Council of Valencia	Monitoring of budgetary execution	Explanation	The Provincial Council of Valencia, in accordance with the LOEPySF, states that it will comply with the indications set forth in the report issued by its financial supervisory body, although it believes that the coercive measures of art. 25 need not be applied, as there is no expected non-compliance with any fiscal rule when settling the 2017 budget (final period of validity of the EFP 2016 -17). The scarce non-compliance with the EFP target at settlement and a lower surplus than that foreseen in the Plan does not entail a risk of non-compliance with the equilibrium position or budgetary surplus, according to the methodology used by the European Commission within the framework of the regulations on budget stability. AIR <sup>e</sup> F stresses the need for the application of art. 25 of the LOEPySF in its last report, when estimating the non-compliance of the EFP in force at the end of 2017

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Non-compliance with any fiscal rules in 2017. If a fiscal rule is not complied with at the end of 2017, it is recommended that appropriate measures be adopted to guarantee compliance with the aforementioned rules at the end of the year.	25/04/2017	Several LGs.	City Councils of Barcelona, Palma de Mallorca, Cordoba, Valladolid and Gijón, as well as the Provincial Council of Seville, the Island Council of Tenerife and the Island Council of Mallorca	LOEPySF	Commitment to compliance The City Councils of Gijón, Valladolid and Palma de Mallorca have not responded, nor the Island Council of Mallorca	The City Council of Barcelona confirms its intention to comply with the fiscal rules in 2017. If the monitoring of the execution of the municipal budgets at any point reveals any deviation that would jeopardises compliance with the fiscal rules, particularly the stability target, the appropriate measures would be taken, basically by means of deductions from budgetary expenditure appropriations. However, in the information sent to AIReF for the report on the end of 2017, the City Council expects non-compliance with the limits established in its EFP for the stability target and the expenditure rule in 2017, for which purpose the application of art. 25 of the LOEPySF are proposed. The City Council of Córdoba intends to comply with all the Fiscal Rules established in the LOEPySF. The Council of Seville intends to comply with the Expenditure Rule target in the execution of the 2017 budget and with the rest of the fiscal rules foreseen in the LOEPySF. The Island Council of Tenerife informs that it is currently working both on the exhaustive monitoring of execution and on the definition of a series of measures, some of which are already being applied through specific actions to contain expenditure and bypass the budgetary appropriation.
Risk of non-compliance with the 2017 expenditure rule. Estimating certain risks of non-compliance with the 2017 expenditure rule (although by a narrow margin) AIReF recommends monitoring execution so that compliance is guaranteed at the end of the year.	25/04/2017	Several LGs.	City Councils of L'Hospitalet de Llobregat, Malaga, Vigo and Zaragoza	Monitoring of budgetary execution	Compliance or commitment to compliance	The City Council of L'Hospitalet declares that budgetary execution is already being monitored. In relation to the recommendation to monitor the expenditure rule, it informs that the municipal economic services and the Municipal General Controller have already been instructed to add a specific section in the aforementioned monitoring reports, to guarantee compliance at year-end. The measure will be implemented immediately, referring to the second quarter of budgetary execution for 2017. The City Council of Vigo responds that budgetary execution is planned in great detail, accurately assessing the appropriations and their objective possibility of reaching the recognition phase of the obligation, objectively determining the causes in each of the chapters in which the anticipated obligations are based. Consequently, they intend to meet the expenditure rule target in the 2017 Budget Settlement. City Council Zaragoza responds that the data provided to AIReF does not show that there is risk of non-compliance with the fiscal rules: budgetary stability and expenditure rule for 2017. However, there is a deviation from the budgetary stability target with respect to the amount set for 2017 in the EFP, and only with respect to that amount and not with the stability target itself. This deviation has occurred due to causes beyond municipal management. Consequently, if the operation of financing the payment of judgements, FIE 2016, had been carried out in time, the financing capacity would be higher than that set in the EFP in both years. The City Council of Malaga informs that it has an EFP 2016 - 17 where it is expected to comply with this variable, implicitly through the containment of public expenditure. Likewise, in the last quarterly monitoring it notes a positive margin of compliance.
Execution measures to comply with target. Adopt implementing measures that guarantee compliance with the stability target, at least balanced, at the end of the year, in accordance with the provisions of the applicable regulations	25/04/2017	City Council of Bilbao	City Council of Bilbao	EFP	Explanation	The City Council of Bilbao sends the report issued by the legal counsel of the Provincial Council of Biscay regarding the approval of its EFP, which indicates that it complies with the prescriptions of the current regional regulations. AIReF understands that this provincial law is not consistent with the LOEPySF; therefore the MINHAF has been made aware of this circumstance.



Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Financial supervision. The Autonomous Region of Catalonia and the Provincial Council of Biscay should carry out the necessary actions to adapt the approved EFPs for the City Council of Bilbao and City Council of Barcelona to the current regulations, without the exercise of their protection powers going beyond the framework established by the reference regulation	25/04/2017	Several LGs	Region of Catalonia and Provincial Council of Biscay	EFP	Explanation	<p>The Autonomous Region of Catalonia responds that in the period corresponding to the approved Plan, the City Council of Barcelona plans to meet the budgetary stability target, place debt well below 75% of its ordinary income and have an average payment period much less than 30 days. In accordance with the EFP forecasts for 2017, compliance with expenditure rule in this year is also expected, as stated in the information submitted. In addition, it must be taken into account that 2016 was settled with a positive net saving and with a positive treasury surplus for general expenses.</p> <p>The Provincial Council of Biscay has sent a report on the EFP of the City Council of Bilbao in which it indicates that it complies with the requirements of the regulations in force, i.e. Provincial Law 5/2013 of June 12, on Budgetary and Financial Stability. In the exercise of its financial protection powers, the Provincial Council has carried out the necessary actions to adapt the current regulations to the EFP of the City Council of Bilbao.</p> <p>AIReF understands that this provincial law is not consistent with the LOEPySF; therefore the MINHAFP has been made aware of this circumstance.</p>
Report on the initial budgets of the Autonomous Regions for 2017						
Adjust budgetary scenarios. Adjust budgetary scenarios in order to offset the risks detected, in the terms specified in the individual reports.	25/4/2017	Navarre	Navarre	Credit withholdings	Explanation	<p>In accordance with the respective report of the Technical General Secretariat of the Department of Finance and Fiscal Policy, Navarre considers that the settlement <b>of the Region's contribution to the State's general charges</b> in 2016 is adequate. However, it is indicated that Navarre continuously monitors budgetary execution and that compliance with the deficit target is expected at the end of 2017.</p> <p>AIReF highlights the need to act on the revenue estimates according to the principle of prudence.</p>
Adjust expenditure execution. Given the deviation appreciated in the budgetary estimates of resources from the regional financing system, implement adjustments to expenditure in order to adapt it to the resources communicated and eliminate the uncertainties observed in the income scenario.	25/04/2017	Valencia	Valencia	Execution	Explanation	<p>Valencia presented an AP to the MINHAFP on May 22, to evaluate the fiscal conditionality of the 2017 regional liquidity support mechanism which was considered suitable.</p> <p>AIReF reiterates that regardless of the approved AP, compliance with the recommendation involves adjusting expenditure execution to the resources</p>
Adjust the execution scenario. Considering compliance is very unlikely, adjust the execution scenario, collecting the necessary actions in a medium-term plan agreed with the MINHAFP that is reflected in the EFPs prepared for compliance with the 2016 targets (for the years envisaged in these documents).	25/04/2017	Several Regions	Cantabria, Extremadura and Murcia	EFP	Commitment to compliance	<p>Cantabria through its EFP 2017- 18 is committed to applying the credit withholdings deemed necessary to comply with the path of the 2017 budget stability target and, if necessary, assess the opportunity to apply some additional withholdings.</p> <p><b>In regard to Cantabria's EFP 2017-18</b> AIReF notes that it should establish the measures for compliance with the recommendations</p> <p>Extremadura states in its EFP 2017 -18 that the scenarios envisaged strictly respect the commitments undertaken by the Region in terms of budgetary stability and financial sustainability. Nevertheless, Extremadura undertakes to adopt the relevant measures, where appropriate, in order to correct any deviations that may be seen throughout the year in compliance with the fiscal rules.</p> <p>AIReF mentions compliance with the recommendation but without express reference to the possibility of adopting withholdings.</p> <p>Murcia informs that the recommendations made through the approval of the EFP 2017 - 18 have been adopted, which includes the medium term plan for the measures to be adopted to allow for adjustment of the scenario, and the measures on which this is based, which allows compliance with the deficit targets (2017, 2018) and the budgetary forecasts projected until 2020.</p> <p>Regarding the EFP 2017-18 of Murcia, AIReF states that it does not refer to credit withholdings but estimates that it will carry out the recommendations.</p> <p>AIReF welcomes the commitment of these Regions and the adoption of measures in the EFP 2017-2018 of these Regions</p>

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Medium term planning. Agree with the medium-term planning with the Regions of Cantabria, Extremadura and Murcia, that includes the actions that these Regions have to carry out in order to adjust their budgetary execution, so that it is integrated into the process of setting individual targets and is reflected in the EFPs presented to the CPFF for 2016 non-compliance (for the years envisaged in these documents).	25/04/2017	Several Regions	MINHAFP	EFP	Explanation	<p>The MINHAFP points out that Article 29 of the LOEPySF already establishes the obligation for the Regions to prepare a medium-term Budgetary Plan covering a minimum period of three years, A Plan that is considered within the framework of the Stability Programme, and in which the preparation of annual budgets should be framed. Through this Plan budget programming coherent with the budgetary stability and government debt targets and the expenditure rule must be guaranteed. In this respect, the Regions mentioned already sent information about their medium-term budgetary plans during March and April 2017. As for the convenience of such planning "being reflected in the EFP of these Regions presented in the CPFF for non-compliance in 2016, for the years referred to in these documents", it should be noted that, with respect to the actions taken to date, the APs have been finalised with the Regions of Extremadura and Murcia due to their adhesion to the 2017 Regional Liquidity Fund (RLF). In the plans a stability target path has been agreed in accordance with those currently planned. With regard to the EFP, in accordance with article 21 of the LOEPySF, the non-compliant Regions should formulate an EFP that allows for compliance with the targets or the expenditure rule in the current year and the following, with the content and scope provided in the same article, a requirement that has been met to date, with only exception of the EFPs agreed in the last month of the year, as this makes it impossible for measures to be taken for the current year. In any case, the EFPs submitted must be consistent with the APs already agreed with the Regions in which compliance is expected.</p> <p>AIReF notes that the CPFF of July 27, 2017 has considered the measures of the respective EFP 2017 - 18 of these three Regions to be suitable. Although it observes that the EFPs presented by the Regions indicated do not establish the recommended medium-term planning. Likewise, AIReF reiterates the need to provide realism to the targets contained in the EFPs so that they serve as a real element of medium-term budgetary planning.</p>
Incorporate information into the initial budget. Incorporate the necessary information into the initial budget, either to support the expenditure trends reflected in the current draft budgetary scenario (where significant risks of deviation are seen), or to improve income forecasts (so that the risks observed are offset); alternatively and for the same purpose, it would be recommended to adjust the budgetary scenarios.	25/04/2017	Aragon	Aragon	EFP	Compliance	The Region of Aragon <b>submitted a new EFP following AIReF's recommendations and based on</b> the final settlement of 2015 communicated to the CPFF
Working group on the expenditure rule. It is recommended to initiate the creation of working groups within the CPFF to reflect and discuss possible modifications of the expenditure rule. Notwithstanding the foregoing, it is also recommended to develop the regulatory framework to solve specific problems in the application of this fiscal rule as soon as possible; in any case, those related to the detailed, general and individual communication of the conditions and criteria for its calculation and application.	25/04/2017	Regions	MINHAFP	CPFF/CNAL	Commitment to compliance	<p>The MINHAFP shares the recommendation to create working groups to reflect and debate on the modifications of the expenditure rule both within the CPFF and the CNAL. As indicated in the Budgetary Plan submitted to Brussels on December 9, 2016, it is expected that throughout the current year, on the occasion of the publication of the new European regulations on expenditure rules for the Member States of the Euro area, the MINHAFP, in collaboration with the rest of Administrations, should perform an analysis of the expenditure rule contained in the LOEPySF, to adapt the Spanish standard to European regulation. On the other hand, it is reiterated that two guides were published for calculating the expenditure rule of the Regions and the LGs. Finally, it informs that in recent months the exchange of information with the Regions has intensified with respect to application of the expenditure rule.</p> <p>AIReF emphasises the need to solve the problems of practical application of the expenditure rule as soon as possible, for which the guidelines indicated are insufficient.</p>

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on the main budgetary lines and draft budgets of the Public Administrations: 2017 Draft GSB						
Monthly monitoring of tax measures. The CA's <b>execution</b> is supervised through monthly monitoring carried out by the MINHAFP of how the adopted tax measures are being implemented and their effect on the proposed stability target, warning of the risk of deviations that could occur at the end of the year. This monitoring must be carried out with the greatest possible transparency, sending the reports prepared to Parliament and AIReF	25/04/2017	CA	MINHAFP	Practical application	Explanation	<p>The MINHAFP responds that currently all available data are published transparently and on a monthly basis to allow for adequate control in order to warn of the risk of deviations that may occur at the end of the year. Specifically, budgetary execution data are published in national accounting terms on a monthly, quarterly and annual basis, broken down by sub-sector. The Agencia Estatal de Administracion Tributaria (AEAT - Spanish Tax Agency) also publishes monthly earnings data. All this information in such a short period of time allows for continued analysis of execution trends and assessing whether it is necessary to adopt measures that guarantee compliance with the budget stability targets. Recent proof of this can be found in the measures regarding instalment payments adopted in October 2016 that have allowed, among other measures, to close the year 2016 below the stability target set.</p> <p>AIReF recognizes the progress made in the monitoring of budgetary execution, but stresses the desirability of defining transparent mechanisms for monitoring the impact of the measures taken. In the case of the CA, when there is a risk of significant deviation, it is considered necessary to go beyond the actual monthly reporting of the measures and to accompany them with a MINHAFP evaluation of the estimated effect at the end of the year, in order to adopt new measures, if necessary.</p>
Commission on the Toledo Pact. The actions initiated should continue and the necessary decisions should be taken to guarantee the financial equilibrium of the Social Security System within the framework of the Commission on the Toledo Pact.	25/04/2017	SSF	MINHAFP/MEYSS	Commission on the Toledo Pact	Commitment to compliance	<p>MINHAFP: fully agrees with this recommendation, for which work will continue within the framework of the Commission on the Toledo Pact, which is the framework envisaged for achieving this target.</p> <p>MEYSS: Intense work is being done to guarantee the financial equilibrium of the Social Security System within the framework of the Toledo Pact.</p>
Complete information contained in the Draft GSB. The information contained in the Draft GSB should be completed in such a way as to allow a specific assessment of CA compliance with the debt target.	25/04/2017	CA	MINHAFP	Stability Programme	Explanation	<p>The MINHAFP responds that the SP, sent to Europe on April 28, includes information on the debt target of the CA. Regarding the recommendation on the 2017 Draft GSB, it indicates that MINHAFP continues to work to progress as much as possible in improving the quality of this information.</p> <p>AIReF considers that regardless of the information in the Stability Programme, information that allows compliance with the debt target of this sub - sector to be determined needs to be included in the GSB. The GSB must include sufficient information to analyse compliance with all fiscal rules and not limit itself to the stability target.</p>
Limit to Article 13 of the LOEPySF. Use the appropriate legal mechanisms to extend the transitional period for compliance with the limit established in Article 13 of the LOEPySF, adapting the requirements specified in the first transitional provision of said law and defining a credible and demanding reference path for the sustained reduction of the debt-to-GDP ratio.	25/04/2017	All PAs	MINHAFP	Stability Programme	Explanation	<p>The MINHAFP responds that the SPU sent to Europe on April 28, in section 4.5 Government debt forecasts (page 58), includes a credible and demanding reference path for the sustained reduction of the debt ratio in the 2016-2020 period, with detailed information on the same. AIReF emphasises that the maintenance of unrealistic targets in the legal framework is not beneficial for the credibility of the whole system of fiscal rules.</p>
Principle of transparency (art 27 of the LOEPySF). Comply with the principle of transparency foreseen in article 27 of the LOEPySF through publication of national accounting adjustments and analyse the need to review the LOEPySF to establish automatic correction measures applicable to the CA in case of non-compliance with the obligations of the Law.	25/04/2017	CA	MINHAFP	EDP Notification	Explanation	<p>The MINHAFP responds that the EP, sent to Europe on April 28, includes information on the CA debt target. With regard to the recommendation on the 2017 Draft GSB, it indicates in this regard that MINHAFP continues to work to be able to progress as much as possible in improving the quality of such information.</p> <p>AIReF considers that regardless of the information of the Stability Programme, it would desirable for it to also be included in the GSB.</p>

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on the main budgetary lines and initial budgets of the Public Administrations 2017: Regions						
Activation of preventive measures of the LOEPySF. For the Regions with a high risk of deviation, the MINHAFP should activate the non-automatic preventive measures of article 19 of the LOEPySF, as in the case of Aragon, Cantabria, Extremadura and Murcia. Consequently, AIReF specifically recommends that the MINHAFP request the Regions of Aragon, Cantabria, Extremadura and Murcia to send a multi-year plan planning in which the level of detail, connection and duration take into account, considering the specific features of each Region, the following aspects: i) The particular situation of each Region in terms of its relative position with respect to the sub-sector as a whole in terms of income, expenditure and the exercise of regulatory capacity; ii) the amount of the adjustment to be made; iii) the relationship between the average effort to be made and that carried out in past years, as shown in figure 1.A: "Assessment of effort. Binomial equity-feasibility", which is included in the individual report of each Region; and iv) the <b>sustainability of its debt path and the Region's contribution</b> to this end from the perspective of the two factors most directly dependent on its performance: commitment to consolidating public accounts and maintaining a stable institutional framework. This medium-term planning, agreed between the Region and the MINHAFP, must be specified in the EFPs that may be presented before the CPFF, related to the end of 2016 and the budgetary execution of this year.	14/02/2017	Aragon, Cantabria, Extremadura and Murcia	MINHAFP	Activation of measures	Explanation	The MINHAFP considers that the measures should not be activated as the coercive measures envisaged in article 25 of the LOEPySF are in effect and would already be applied to these Regions, therefore a preventive measure would be overlapped; and, as long as the data for the end of 2016 is not known, article 25 will continue to apply. Regarding the multi-year planning, the MINHAFP refers to the legal content of the EFP. AIReF emphasises that the activation of the measures would have been advisable, as it would have allowed the application of the corrective measures to be brought forward for the years affected by the risk of non-compliance, especially taking into account that these Regions do not have an EFP approved for their non-compliance in 2014 and 2015. Likewise, AIReF reiterates the need to provide realism to the targets contained in the EFPs so that they serve as a real element of medium-term budgetary planning.
Design of the regional debt targets. The MINHAFP should design a system for setting debt targets that fulfils the function of monitoring EDP indebtedness, taking into account the following characteristics: i) establishment of multi-year targets, proposing credible and demanding paths compatible with the guarantee of financial sustainability; ii) integration with the principle of budgetary stability and the expenditure rule in order to guarantee the coherence of the preventive framework in the medium and long term; and iii) comprehensive and differentiated evaluation of the starting situation of the different Regions, with a focus on the impact of the financing system and on the State's dependence on financing mechanisms.	14/02/2017	Regions	MINHAFP	Amendment of LOEPySF	Explanation	The MINHAFP argues that the procedure for setting stability and government debt targets is regulated in detail in articles 15 and 16 of the LOEPySF and that the current regulations ensure consistency. AIReF reiterates the need to ensure coherence in the system of fiscal rules to ensure its effectiveness and to adopt a comprehensive vision when analysing the fiscal discipline framework.
Working groups on the expenditure rule. The MINHAFP should initiate the creation of working groups within the CPFF and the National Commission of Local Administration, to reflect on and discuss possible changes to the expenditure rule. Without prejudice to the above, AIReF recommends that the MINHAFP carry out the necessary regulatory development to solve the specific problems surrounding application of this fiscal rule.	14/02/2017	Regions	MINHAFP	Practical application	Commitment to compliance	The MINHAFP shares the recommendation and states that progress has been made in this regard; however, it considers that we will have to wait for changes in European regulations before amending Spanish legislation. AIReF considers it to be immediately necessary to solve specific problems surrounding practical application, as soon as possible.
Credit withholdings according to the principle of prudence. As long as the resources of the financing system subject to instalment payments are not updated with respect to those communicated in October, adopt the credit withholdings necessary to adjust expenditure to the resources received (in accordance with the principle of prudence).	14/02/2017	Several Regions	Castile La Mancha, Extremadura, Andalusia, Galicia, Cantabria, Murcia, Aragon, Asturias, Catalonia and Rioja	Credit withholdings	Explanation / Commitment to compliance of Madrid, Aragon and Cantabria	Most of the Regions, except Madrid, Aragon and Cantabria, do not consider it advisable to apply credit withholdings, even by introducing additional expenditure restrictions, as they do not agree with the forecasts or are not necessary for guaranteeing compliance with the stability targets. In any case, this recommendation would have been redundant when the instalment payments were updated with the subsequent approval of the 2017 GSB.

Recommendation on the subject of the report	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Credit withholdings according to the principle of prudence. As long as there is no agreement of the Coordinating Commission that sets the amount of the contribution to the State in the amount provided for in the Region's budget, adopt the credit withholdings necessary to adjust the expenditure to current payments (in accordance with the principle of prudence).	14/02/2017	Navarre	Navarre	Credit withholdings	Explanation	The Provincial Council of Navarre considers, in accordance with the respective report of the General Technical Secretariat of the Department of Finance and Fiscal Policy, that the settlement of the Region's contribution to the general charges of the State in 2016 was consistent with legal requirements. AIReF reiterates the need to act on the revenue estimates in accordance with the principle of prudence.
Reports on risk of non-compliance. Implement, as soon as possible, the necessary procedure so that their Financial Controllers issue monthly reports on the risks of non-compliance with fiscal rules at the end of the year and that, if detected, alert the regional government to the need to adopt decisions for the early correction of deviations that may occur.	14/02/2017	Several Regions	Asturias, Balearic Islands, Canary Islands, Cantabria, Castile La Mancha, Catalonia, Extremadura, Rioja and Murcia	Practical application	Commitment to compliance	The Regions Indicated the different systems for monitoring the implementation of the budget in their responses, in many cases mentioning the obligation established by the MINHAFP within the framework of the condition imposed by the FLA for the Region's Financial Controller to submit a report on the monthly monitoring of budgetary execution. AIReF welcomes the progress in this area, although it considers that a more transparent system, as detailed in the recommendation, would be desirable.
Adoption of measures in order to achieve targets. Due to the extent of the risks observed, to adopt significant measures and actions that are included in the approved budget and, where appropriate, in the EFP presented by the Region. These measures should be communicated to the MINHAFP in the context of the actions provided for in article 19 of the LOEPySF. In the assessment of these measures, AIReF considers that, in addition to the relative position of the Region in terms of revenue and expenditure, the level of effort expended and that necessary for the future should be taken into account.	14/02/2017	Several Regions	Aragon, Extremadura, Cantabria and Murcia	Adoption of measures	Commitment to compliance	Aragon undertook to establish the appropriate mechanisms once its budget was approved. Extremadura showed its willingness to adopt measures in the framework of preparing the EFP. Cantabria <b>adopted a government agreement to initiate the procedures to comply with AIReF's recommendations.</b> Murcia refers to the preparation of the EFP. AIReF welcomes the commitment of these Regions, and will assess the adoption of measures when reporting, prior to approval by the CPFF, on the 2017-2018 EFPs that must be submitted by these Regions due to non-compliance with the 2016 stability targets and/or the expenditure rule.



## Recommendations on scope limitations

Recommendation on scope limitations	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Report on the Macroeconomic Forecasts of the 2018 Draft Budgetary Plan.						
Internal consistency in the annual and quarterly National Accounts estimates. The INE should ensure internal consistency in the annual and quarterly National Accounts estimates in the framework of the preparation of the macroeconomic scenario associated with the Draft GSB Law, in line with its practice until 2014.	16/10/2017	INE	INE/MINECO	Practical application	Commitment to compliance	The INE (National Statistics Institute) clarifies that in no case is there an inconsistency since the regulatory transmission deadlines for the annual and quarterly accounts do not coincide. However, they understand that the dissemination dates of the statistics and their sources should be as close as possible in time. In 2017 the gap between the publication of the quarterly accounts of the second quarter and the revision of the annual accounts was reduced to just 20 days, and next year, in order to comply with AIReF's recommendation, it commits to further reducing this period provided that the necessary sources are available.
Reports on the establishment of individual 2018-2020 budgetary stability and government debt targets for the Autonomous Regions						
Establishment of deficit target. An explanation of the methodology and criteria underlying the establishment of a deficit target of 0.4% GDP for each Region should be included, as well as the consideration of the feasibility of this target	25/07/2017	Regions	MINHAFP	Proposal of individual targets for Regions	Commitment to compliance	The MINHAFP indicates that in 2018, the Regions should make an adjustment of 0.2 % GDP, similar to that in 2017 (0.25 %), both absolutely feasible, taking into account the greater resources envisaged through the RFS in both 2017 and 2018. Moreover, the setting of the targets for the 2018-2020 period was already included in the target proposal sent to AIReF on July 19. For subsequent years, an attempt will be made to broaden the technical basis of the proposal of the Government of Spain on individual stability and government debt targets sent to AIReF. <b>AIReF welcomes the Ministry's plan to include more information on methodology and criteria in subsequent years</b>
Report on the Economic-Financial Plans (Valencia, Galicia, Catalonia, Cantabria, Canary Islands, Aragon, Andalusia) and Update reports on the Economic-Financial Plans (Murcia)						
Review of regional EFP schedules and deadlines. To review the schedules and deadlines established in the law for implementing actions, and bring forward the procedures and the notification of essential information that allows the Region to draw up the Plan as soon as possible, within the deadline established and without uncertainties, which would entail, among other actions: a. Publication of the report on compliance with stability and debt targets and the expenditure rule immediately after its preparation, so that the deadlines for the preparation and revision of the EFP begin as soon as possible and their application is more effective. b. Communication to the Regions, at the time of preparing the EFPs, of the forecast of system resources for the year included in the scope of the EFP. c. Bring forward, coinciding with the preparation of the EFP, the process for approval of the final budgetary stability and government debt targets and of the definitive reference rate for the expenditure rule for the years included in the scope of the EFP.	04/07/2017	Regions	MINHAFP	Practical application	Explanation	The MINHAFP responds that the report on compliance with the stability and debt targets and the expenditure rule is published immediately after its preparation; however, they will try to speed it up as much as possible. On the other hand, at the time of preparation of the EFPs, the Regions are provided with the only possible forecasts with the information available at that time. In terms of bringing the process forwards, taking into account the provisions of the LOEPySF, the approval of the targets does not seem justified, since it would mean having an economic and income forecast with less information due to being very early in the year and could break the necessary coordination of the deadlines currently envisaged between the internal regulations and the deadlines of the European semester.  AIReF reiterates that the internal regulations (Article 15 of the LOEPySF) establish that before April 1 of each year the MINHAFP must submit the proposal of targets for the Regions, which would be in line with <b>AIReF's recommendation. In any case, it insists that the approval of the EFPs can not become a mere formality, but must constitute a fundamental element of realistic budgeting in the medium term.</b>
Report on expected PA compliance with the budgetary stability targets, government debt targets and expenditure rule						
Publishing of commitments of financial supervisory bodies. Publish the firm commitments, adopted at the meetings of the financial supervisory bodies of the LGs on common criteria for the application of fiscal rules, as well as the actions separated from these criteria. To this end, this ministry shall promote the necessary procedures that guarantee the assumption of said agreements by political leaders.	17/07/2017	LGs	MINHAFP	Technical meetings	Explanation	The MINHAP responds that the supervisory bodies of the LGs have the obligation to report quarterly on their actions and on a bi-annual basis on the monitoring of the EFP. The data is published in the Information Center. The meetings with the regional supervisory bodies are held annually and are of a technical nature. In addition, representatives of the IGAE and SGFAL, given the nature of some issues. At the end minutes are prepared with non-binding content. Publishing such agreements would entail political representatives taking into account their contents, which could distort its content and objective, therefore, it is proposed to invite AIReF representatives to the 2017 meeting.

Recommendation on scope limitations	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Publication of target compliance data. Carry out the necessary actions to allow the publication of all the data necessary for verification of compliance with all fiscal rules at the LG sub-sector level and, at the individual level, and to publish the main components that affect their calculation.	17/07/2017	LGs	MINHAFP	Monitoring of fiscal rules and National Accounts	Explanation	The MINHAFP responds that all available information that allows for adequate monitoring is published in a transparent manner. In terms of National Accounts, it is published on a quarterly basis. All this information allows for the analysis of execution, assessing if it is necessary to adopt measures to ensure compliance with the stability targets, as well as adequate monitoring of compliance with fiscal rules. AIReF welcomes the publication of these data, but stresses the need to increase transparency on compliance with fiscal rules by the LGs.
Report on the EFP of the Autonomous Region of Extremadura						
Review of Plan schedules and deadlines. To review the schedules and deadlines established in the law for implementing actions, and bring forward the procedures and the notification of essential information that allows the Region to draw up the Plan as soon as possible, within the deadline established and without important uncertainties, which would entail, among other actions: a) Publication of the report on compliance with the stability and debt targets and the expenditure rule immediately after its preparation, so that the deadlines for preparation and revision of the EFPs begin as soon as possible and their application is more effective. b) Communication to the Regions, at the time of preparing the EFPs, the forecast of system resources for the years included in the scope of the EFP. c) Bring forward, coinciding with the preparation of the EFP, the approval process of the final budgetary stability and government debt targets and the definitive reference rate for the expenditure rule for the years included in the scope of the EFP.	26/06/2017	Regions	MINHAFP	LOEPySF	Explanation	The MINHAFP responds that the report on compliance with the stability and debt targets and the expenditure rule is published immediately after its preparation; however, they will try to speed it up as much as possible. On the other hand, at the time of preparation of the EFPs, the Regions are provided with the only possible forecasts with the information available at that time. In terms of bringing the process forwards, the approval of the targets, taking into account the provisions of the LOEPySF, the approval of the targets does not seem justified, since it would mean having an economic and income forecast with less information due to being very early in the year and could break the necessary coordination of the deadlines currently envisaged between the internal regulations and the deadlines of the European semester.  AIReF insists that the approval of the EFPs cannot become a mere formality, but it must be a fundamental element of realistic budgeting in the medium term.
Report on the Update of the Stability Programme of the Kingdom of Spain 2017-2020						
Content of the Stability Programme. The Stability Programme includes: (1) An inertial or "no policy change" macroeconomic scenario and a separate quantification of the impact of the measures taken or planned, in order to facilitate the understanding of the forecasts and make the connection between the macroeconomic scenario and the budgetary scenario explicit at all times. (2) Budgetary projections in an inertial scenario without measures both for the GG and for each of the sub-sectors. (3) Budget projections for both the GG and for each of the sub-sectors that incorporated the measures, in this way, allowing us to see which part of the consolidation adjustment planned would be achieved through the adoption of measures. (4) Government debt targets distributed by sub-sectors. (5) Detailed information for the analysis of the expenditure rule, for each of the sub-sectors, of the computable expenditure, as well as the reference rates for the calculation of the expenditure rule for all the years included in the update of the Stability Programme. (6) More information about the risks that, if they materialise, could affect budgetary stability or debt targets.	10/05/2017	All PAs	MINHAFP/MINECO	Close collaboration between MINHAFP and MINECO	Explanation	Regarding point (1) MINHAFP says that it is not of its competence and also is not enforceable in the SP. Regarding point (2) it says that a constant policy is required in the SP but it will analyse and study the recommendation to present it as such in the future. Regarding (3), this is already being done in practice; in various annexes of the SP it is possible to identify which part of the adjustment belongs to each sub-sector. (4) This recommendation will be analysed and studied to see if it can be included in the SP in the future. Regarding (5), note that detailed information on the expenditure rule is already included in one of the annexes of the SP concerning the "amounts to be excluded from the expenditure ceiling", with provisions for the 2017-2020 period in relation to expenditure on EU programmes fully funded with EU funds, cyclical expenditure on unemployment benefits, the effects of discretionary revenue measures and expenditure on interest. On (6), the SP includes the risks currently in existence that could affect the stability targets, with the information available so far. It also includes contingent liabilities and the Ministry will inform AIReF about the risks for which there is evidence as they become known.  MINECO establishes that its competence is related to (1) although the macroeconomic scenario is not required in the SP and it would be complex to include it, so it is proposed to include estimates of real and nominal GDP growth in a scenario without measures. Also, on point (5) it has competence for estimating the reference rate included in the expenditure rule, this rate is published at the end of each year and for reasons of legal security can not be amended.  AIReF stresses the desirability of including this information in the SPU especially considering that in the case of Spain, the SPU also fulfils the role of medium term budgetary plan.
Publication of first report of art 17.3 of the LOEPySF. The MINHAFP should publish, as soon as possible, the first report on the degree of compliance with the 2016 stability and government debt targets and the expenditure rule (article 17.3 of the LOEPySF).	10/05/2017	All PAs	MINHAFP	Publication	Compliance	The MINHAFP responds that this report is already published.

Recommendation on scope limitations	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Publication of CDGAE evaluation publication and percentage of excess deficit. Publish the evaluation of the Executive Committee of the Government for Economic Issues (CDGAE) on the degree of compliance with the health expenditure rule of the Regions in 2016. Likewise, publish the percentage of the excess deficit with respect to the 2016 target decided by the CDGAE that must be offset in the budgets of subsequent years, specifying the years in which the Regions will offset the deviation.	10/05/2017	Regions	MINHAFP	Publication	Explanation	The MINHAFP responds that the information related to the healthcare expenditure rule of the Regions is public. AIR <sup>e</sup> F emphasises the desirability of publishing the rest of the information referred to in the recommendation.
Report on the main budgetary lines and draft budgets of the Public Administrations: 2017 Draft GSB						
National accounting adjustments. The guidelines set out in the LOEPySF on transparency should be complied with and the national accounting adjustments that allow the budgetary balance to be reconciled with net/lending borrowing in terms of ESA 2010 should be included in the 2017 Draft GSB.	25/04/2017	CA	MINHAFP	EDP Notification	Explanation	The MINHAFP responds that the national accounting adjustments carried out in 2016 and those planned for 2017 are published, in accordance with EU regulations, in the EDP notification of March 31st. AIR <sup>e</sup> F notes that the requirement for budgets to include national accounting adjustments is expressly included in the EU regulations and in the LOEPySF, and should not be replaced by the information included in the EDP notifications which have another preparation calendar that is different to the budget preparation process.
Non-public entities in ESA 2010. The GSB should include information on the non-public entities included in the CA sub-sector for the purposes of ESA 2010 and the balance resulting from the net lending/borrowing of the Central Administration Agencies.	25/04/2017	CA	MINHAFP	Practical application	Explanation	The MINHAFP responds that the 2017 GSB includes information on the entities established by the regulations. AIR <sup>e</sup> F emphasises the need for information on all entities with an impact have an impact on the net lending/borrowing of the CA sub-sector, especially taking into account the importance that operations carried out by entities such as the FGD have had in recent years on the deficit.
Initial budget. Prepare an initial budget in national accounting tern for the CA and SSF	25/04/2017	CA and Social Security	MINHAFP	Adoption of measures	Commitment to compliance	The MINHAFP admits that it is a reality that national accounting increasingly extends to the field of economic-financial information. Thus, the execution data of the Regions and SS are published monthly in national accounting terms. All this leads to be being able to achieve a CA and SSF budget in national accounting terms in the future, this being the direction in which the MINHAFP is currently working. AIR <sup>e</sup> F considers that compliance with the deficit and debt targets and the expenditure rule should be measured in terms of ESA 2010 so it is essential have the necessary information to ensure compliance from the draft budget.
Information for assessing expenditure rule. Include the information necessary for the assessment of the expenditure rule in the GSB. In the context of the CA, include information determining the impact of the main regulatory changes and their qualification as "permanent or non-permanent" for the purposes of expenditure rule.	25/04/2017	CA	MINHAFP	Practical application	Explanation	The MINHAFP responds that the information on compliance with the expenditure rule is included in the report published by the MINHAFP in compliance with article 17 of the LOEPySF, paragraphs 3 and 4, in April and October, respectively. In addition, for the current year, the budget execution reports published each month by the IGAE include information on computable expenditure trends for the purpose of calculating the CA's expenditure rule, indicating, among other issues, the amount of regulatory changes with permanent increases or decreases in earnings. AIR <sup>e</sup> F emphasises that compliance with the expenditure rule not only needs to be verified in execution, but it is essential to ensure that the computable expenditure supports the approved growth rate from the draft budget. To guarantee this compliance, it is necessary to include information regarding the components of the expenditure rule in the GSB.
Report on the initial budgets of the Public Administrations: LGs. 2017						
Publication of annual meetings of LG financial supervisory bodies bodies. Publish the annual meetings of the financial supervisory bodies of the LGs, as well as the firm commitments adopted therein and, where appropriate, the possible deviations from commitments by any of these bodies and promote the include in those commitments the actions to be taken in the event of deviation from the common criteria assumed during the exercise of the functions of any of the protection agencies.	25/04/2017	LGs	MINHAFP	Technical meetings	Explanation	The MINHAP responds that the annual meetings are technical programming, coordination and cooperation meetings; and that they are not of a collegial and executive nature. In addition, representatives of the IGAE and management bodies of the SGFAL are invited. At the end of the meeting, a draft minutes is prepared with non-binding content, which is sent to all those who attended the meeting. Publishing such agreements would entail political representatives taking into account their content, which may affect their content and objective; therefore it is proposed to invite AIR <sup>e</sup> F representatives to the meeting that is expected to be held in September.  AIR <sup>e</sup> F has been sent an invitation to the next meeting on October 4, although this institution insists on the need to look for ways to make compliance with the commitments that are adopted in these meetings obligatory, as well their publication.



Recommendation on scope limitations	Date	Recipient	Competent body	Mode of compliance	Status	Remarks
Publication of target compliance data. Carry out the necessary actions which allow the publication of all the necessary data for verifying compliance with the stability target and expenditure rule at LG sub-sector and, at the individual level, to publish the main components involved in its calculation.	25/04/2017	LGs	MINHAFP	Technical meetings	Explanation	The MINHAFP responds that it publishes information through the SGFAL that allows it to carry out monitoring of compliance with fiscal rules, in general, and compliance with the individual budgetary stability target in particular. The IGAE publishes the aggregate data of the sub-sector and verifies compliance with the stability target and the expenditure rule for the sub-sector as a whole, within the established deadlines. Therefore, the IGAE does not prepare and can not provide individual information by local corporation in terms of national accounting or the expenditure rule. On the other hand, it should be noted that the IGAE has published, for the first time, the individual data in national accounting terms of the 8 main LCs for 2016. AIReF welcomes the publication of new data, but stresses the need for increased transparency on compliance with the fiscal rules by all LGs.
Report on the macroeconomic forecasts of the 2017 draft General State Budgets.						
Inertial macroeconomic scenario. Accompany the macroeconomic scenario with an inertial or "no policy change" scenario, and a separate quantification of the impact of the measures taken or planned, in order to facilitate understanding of the forecasts and making the connection between the macroeconomic scenario and the budgetary scenario explicit.	31/03/2017	CA	MINECO	Activation of measures	Commitment to compliance	MINECO, once it has the quantification of the impact of the measures taken or planned provided by the MINHAFP, proposes to include real and nominal GDP growth estimates in a "no policy change" scenario in future draft GSBs. Although AIReF welcomes the proposal, it stresses the need for an inertial macroeconomic scenario accompanied by the quantified impact of the measures to facilitate analysis of the scenario and the transmission channels of the measures and ensure the consistency between the macroeconomic and budgetary scenario.
Report on the macroeconomic forecasts of the budgets of the Autonomous Regions: 2017						
Publication of forecast models. Publication of the models and parameters used in the macroeconomic forecasts, following the provisions of Directive 2011/85/EU on the requirements applicable to the budgetary frameworks of the Member States	23/01/2017	Several Regions	Andalusia, Asturias, Balearic Islands, Canary Islands, Cantabria, Catalonia, Valencia, Galicia, Murcia and Navarre	Practical Application	Commitment to compliance: Catalonia, Andalusia, Murcia, Valencia, Balearic Islands Explanation: Asturias, Navarre No response from: Canary Islands, Extremadura	Compliance with this recommendation was addressed in a session with the Regions within the framework of the 1st Conference on Economy and Regional Sustainability organised by AIReF. Cantabria has joined the working group created by AIReF on this issue and has created its own working group. Catalonia currently makes forecasts twice a year, through an external advisory service. They are working on updating the parameters used in the forecasts and complying with the recommendation. Galicia will include a methodological annex in the Economic-Financial Report of the Budgets, which will also be disseminated on the IGAE website and, within 3 months, a more detailed methodology. Asturias does not prepare its own macroeconomic forecasts at the current date but rather uses those prepared by the CA. Andalusia is committed to studying how to comply with the recommendation to publish the methodologies and parameters underlying the macroeconomic forecasts. Murcia sends the report on the model and parameters used in the macroeconomic forecasts made by the Region of Murcia and its intention is to publish it on its transparency portal. Valencia is in a position to send all the documentation and initiate the tasks for its publication. Navarre will include an explanation of the tools and assumptions used in the estimation of its macroeconomic scenario in the next report on the situation and perspectives of the Economy and Finance of Navarre, which accompanies its Provincial Budget Law. Balearic Islands already publish the information related to the budget and for the rest it will publish a summary of the assumptions underlying its preparation and the sources.
Macroeconomic forecasts used by the Regions The Regions that adopt identical forecasts to those of the economy as a whole should note this fact explicitly	23/01/2017	Several Regions	Asturias, Cantabria and Extremadura	Practical application	Commitment to compliance: Cantabria, Asturias No response from: Extremadura	Compliance with this recommendation was addressed in a session with the Regions as part of the 1st Conference on Economy and Regional Sustainability organised by AIReF. Cantabria will adopt identical forecasts to those of the economy as a whole and will note this explicitly. In compliance with this recommendation Asturias undertakes to include this fact explicitly in the next 2018 Draft General Budgets for Asturias, currently being prepared.

## Opinion proposals

	Date	Recipient	Competent Mode	Body of compliance
Opinion on the determination of the 2017 PRI				
Complete the information provided: a. Provide the macroeconomic series used, in order to replicate the baseline scenario of revenue trends, as well as alternative scenarios. b. Detail the calculation of the historical substitution effect and the model for estimating the future substitution effect. c. Explain the projection method for the number of pensions, identifying the number of registrations and cancellations of each fiscal year, preferably by pension class. d. Publish the pensioner population mortality tables and its future projection.	13/07/2017	Social Security	MEYSS	Practical application
Publicly explain the method used to solve the circularity of the mathematical formula for calculating the PRI, which requires presentation of the following: a. The iterative procedure followed. b. Long-term forecasts (if possible, up to 2050) of the variables that define the PRI, including the expected evolution of the PRI. c. Results for the variables that determine the PRI in an alternative scenario of revaluation without	13/07/2017	Social Security	MEYSS	Practical application
Assess a reformulation of the PRI that eliminates circularity.	13/07/2017	Social Security	MEYSS	Practical application
Assess amendment of the current legislation so that the formula uses the consolidated income and expenditure values of the Social Security	13/07/2017	Social Security	MEYSS	Practical application
Opinion on the application of the formula for calculating the contribution rate for cessation of self-employment benefits for self-employed workers in 2017				
It is recommended that the Ministry of Employment and Social Security publish the information that allows calculations of the formula to estimate the balance of the benefit for cessation of activity in the GSB.	21/11/2017	Social Security	MEYSS	GSB
In the medium term, it is recommended to extend the period for revenue and expenses applied in the formula.	21/11/2017	Social Security	MEYSS	Practical application

## Guidelines for good practice

	Date	Recipient	Competent Mode	body of compliance
Report on the Macroeconomic Forecasts of the 2017 budgets of the Autonomous Regions				
Reiterates the importance of including the comparison with other independent forecasts	23/01/2017	Regions	Regions	Regional budgets
Insists on the need, for the Regions that adopt forecasts other than those for the economy as a whole, of providing information, at least, on GDP and expenditure in homogeneous terms.	23/01/2017	Regions	Regions	Regional budgets
Report on the Macroeconomic Forecasts of the 2017 Draft GSB				
Integrate the key elements of the forecasts into a simplified framework of National Accounts, so that it is possible to understand the connections between economic activity, demand and expenditure, on the one hand, and income flows and financing requirements, on the other.	31/03/2017	CA	MINECO	GSB
Expand the information on the methodologies, assumptions and relevant parameters underlying the forecasts, in line with the provisions of Directive 2011/85 on budgetary frameworks and article 29 of the LOEPySF, which defines the content of the Budgetary Plans of the PAs in the medium term.	31/03/2017	CA	MINECO	GSB
Report on the Update of the Stability Programme of the Kingdom of Spain 2017-2020				
Integrate the key elements of the forecasts into a simplified framework of National Accounts, so that it is possible to understand the connections between economic activity, demand and expenditure, on the one hand, and income flows and financing requirements, on the other.	10/05/2017	CA	MINECO	SPU
Expand the information on the methodologies, assumptions and relevant parameters underlying the forecasts, in line with the provisions of Directive 2011/85 on budgetary frameworks and article 29 of the LOEPySF, which defines the content of the Budgetary Plans of the PAs in the medium term.	10/05/2017	CA	MINECO	SPU
Incorporate the latest information available, such as budgetary frameworks, main budgetary lines or draft budgets of the Regions, in the analysis of the budgets of the regional sub-sector and not limit this information to approved budgets only, in order to be able to carry out a more complete and fitting evaluation of the sub-sector.	10/05/2017	L Regions	MINHAFP	SPU

	Date	Recipient	Competent body	Mode of compliance
Report on expected PA compliance with the budgetary stability targets, government debt targets and expenditure rule: 2017				
Publish information on contingent liabilities that may affect public accounts with a more extensive breakdown than that required for the purposes of the Stability Programme or the Directive on budgetary frameworks, in such a way as to provide updated information on the potential risks that may affect public accounts.	17/07/2017	PAs	MINHAFP	Publication
Report on the EFP of the Autonomous Regions (Extremadura, Murcia, Basque Country, Valencia, Galicia, Catalonia, Cantabria, Canary Islands, Aragon, Andalusia, Castile La Mancha)				
Expand the parameters upon which the analysis is based, taking into account different growth and interest rate assumptions.	17/07/2017	Regions	MINHAFP	EFP
Report on the Macroeconomic Forecasts of the 2018 Draft GSB				
Integrate the key elements of the forecasts into a simplified framework of National Accounts, so that it is possible to understand the connections between economic activity, demand and expenditure, on the one hand, and the income flows and financing requirements, on the other.	16/10/2017	CA	MINECO	GSB
Expand the information on the methodologies, assumptions and relevant parameters underlying the forecasts, in line with the provisions of Directive 2011/85 on budgetary frameworks and article 29 of the LOEPySF, which defines the content of the Budgetary Plans of the PAs in the medium term.	16/10/2017	CA	MINECO	GSB
Report on the main budgetary lines of the 2018 budgets of the Autonomous Regions				
Carry out prudent budgetary execution , considering the possible reduction of income that may arise from the update of the resources of the RFS to the real growth scenario included in the GSB	24/10/2017	Several Regions	Andalusia, Aragon, Asturias, Canary Islands, Cantabria, Castile La Mancha, Castile and Leon, Valencia, Extremadura , Galicia, Balearic Islands, Madrid, Murcia	Practical application
Include revenue and expenditure forecasts closer to what may be executed, taking into account the trends shown and that contributed, into the Budgets for 2018, which are being processed.	24/10/2017	Andalusia	Andalusia	2018 Regional budgets

## Recommendations from 2017

Competent administration	Received	Responded	Compliance or commitment to comply	Explained	In process
Ministry of Finance and Public Administration	56	56	15	40	1
Ministry of Economy, Industry and Competitiveness.	4	4	2	2	0
Ministry of Employment and Social Security	2	2	2	0	0
Andalusia	5	5	3	2	0
Aragon	8	8	6	2	0
Madrid	4	4	3	1	0
Navarre	5	5	2	3	0
Canary Islands	3	2	2	0	0
Cantabria	11	11	9	2	0
Castile and Leon	3	3	3	0	0
Castile La Mancha	5	5	3	1	1
Catalonia	6	6	3	2	1
Valencia	7	7	3	4	0
Extremadura	12	10	8	2	0
Galicia	5	5	4	1	0
Balearic Islands	6	6	5	1	0
Rioja	4	2	2	0	0
Basque Country	3	3	3	0	0
Asturias	8	8	6	2	0
Murcia	11	11	7	4	0
Barcelona	3	3	3	0	0
Bilbao	3	3	1	2	0
Cordova	1	1	1	0	0
Gijón	3	2	2	0	0
Hospitalet de Llobregat	2	2	2	0	0
Madrid	2	2	0	2	0
Malaga	2	2	2	0	0
Murcia	2	2	1	1	0

Competent administration	Received	Responded	Compliance or commitment to comply	Explained	In process
Palma de Mallorca	3	1	0	1	0
Seville	1	1	0	1	0
Valencia	2	2	0	2	0
Valladolid	2	1	1	0	0
Vigo	2	2	1	1	0
Saragossa	2	2	1	1	0
Council of Tenerife	2	2	2	0	0
Island Council of Mallorca	2	1	0	1	0
Provincial Council of Barcelona	1	1	1	0	0
Provincial Council of Seville	2	2	2	0	0
Provincial Council of Valencia	2	2	0	2	0
Provincial Council of Biscay	2	2	1	1	0
INE	1	1	1	0	0

# Monitoring of the 2017 Action Plan

2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
1. CONTRIBUTE TO BUDGETARY STABILITY		
a. Monitor and analyse the economic and budgetary situation		
i. Development of forecasting and projection models of macroeconomic and budgetary variables	<p>1. Continuous revision of the modelling work on the main macro variables:</p> <ul style="list-style-type: none"> <li>- <b>Integrated model for short-term forecasts</b> (MiPred) dynamic factor model (q+1 and q+2)</li> <li>- <b>BVAR Mode: Medium-term forecasts</b> (q+3 to q+1)</li> <li>- <b>MetCap Model: Early quarterly regional GDP estimates</b></li> </ul> <p>2. Implementation of the AIREF MTA quarterly model, which will cover q+2 and q+3 and will contain:</p> <ul style="list-style-type: none"> <li>- 2a. Demand block.</li> <li>- 2b. Credit block.</li> <li>- 2c. Fiscal policy</li> <li>- 2d. Prices</li> <li>- 2e. Labour market block</li> <li>- <b>Work for the preparation of the MTA Working Paper (WP)</b></li> </ul> <p>3. Analysis of the elasticity of the main tax revenues.</p> <p><b>Preparation of a WP: 'Impact of discretionary measures on the elasticity of tax revenues' with possible presentation at the Public Finance Workshop on Fiscal-Structural Reforms which will be held in Lisbon.</b></p> <ul style="list-style-type: none"> <li>- 3a. Continued modelling of real estate tax revenue</li> <li>- 3b. Continued modelling of the <b>Regions' education and healthcare expenditure forecasts.</b> Study of the possibility of developing a projection model for <b>the Regions' social services expenditure.</b></li> </ul> <p>4. Internal database maintenance work.</p> <p>5. Improvement of forecasts through the incorporation of microdata.</p>	<p>1. Continuous revision of the modelling work on the main macro variables:</p> <ul style="list-style-type: none"> <li>- <b>Integrated model for short-term forecasts</b> (MiPred) dynamic factor model (q+1 and q+2)</li> <li>- <b>BVAR Mode: Medium-term forecasts</b> (q+3 to q+1)</li> <li>- <b>MetCap Model: Early quarterly regional GDP estimates</b></li> <li>- Design of a dynamic factor model for forecasting the GDP of Catalonia in real time</li> </ul> <p>2. Estimation and integration of the main equations of the AIREF MTA quarterly model: demand, prices and employment.</p> <p>3. Analysis of the elasticity of the main tax revenues.</p> <p><b>Draft of the WP: 'Impact of discretionary measures on the elasticity of tax revenues' presented in Frankfurt.</b></p> <ul style="list-style-type: none"> <li>- 3a. Modelling of real estate tax revenue at regional level. Cadastral data was incorporated into the budgetary data of each entity during implementation.</li> <li>- 3b. Executed, using the results of the education and healthcare models, incorporated into the regional expenditure projections. Progress has been made in obtaining information that enables the possibility of a similar model for social services expenditure to be assessed.</li> </ul> <p>4. Internal database maintenance work.</p> <p>5. Improvement of forecasts through the incorporation of microdata.</p>



2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
1 CONTRIBUTE TO BUDGETARY STABILITY		
a. Monitor and analyse the economic and budgetary situation		
ii. Establishment and maintenance of systems for monitoring budgetary execution data and alerting of possible imbalances in each of the Public Administrations	<p>1. Maintenance and updating of the debt monitor (interactive through Tableau) (quarterly update)</p> <p>2. Continuation of the integration work among the different institutional sectors:</p> <ul style="list-style-type: none"> <li>- Reconciliation of macroeconomic and fiscal variables</li> <li>- <b>Reconciliation of financial and non-financial variables</b></li> <li>- <b>Application of shocks through elasticities</b></li> <li>- <b>Improvement of sectoral distribution methods</b></li> <li>- <b>Simulation tool</b></li> </ul> <p>3. Development of a basic simulator of fiscal policy that uses the national accounting methodology.</p> <p>4. Quarterly publication of execution data in national accounting terms for the GG and each of the sub-sectors with assessment of the risk of non-compliance with the stability target in probabilistic terms. This analysis is completed with the main tax figures of the CA in cash and national accounting terms. This monitoring and publication is in addition to the assessment made in the reports.</p> <p>5. Inclusion in the quarterly analysis of the annualised data by quarters accumulated for each Region.</p> <p>6. Inclusion of a scorecard through Tableau on the situation and projections of the TAs.</p> <p>7. Updating, maintaining and operating the database and incorporating early warning indicators into it.</p> <p>8. Analysis of the data published on the actual costs of LC public services.</p> <p>9. Design and implementation of a database for the Regions, in similar terms to that of the LGs.</p>	<p>1. Maintenance and updating of the debt monitor (interactive through Tableau) (quarterly update)</p> <p>2. Integration among the different institutional sectors:</p> <ul style="list-style-type: none"> <li>- <b>Reconciliation of macroeconomic and fiscal variables</b></li> <li>- <b>Reconciliation of financial and non-financial variables</b></li> <li>- <b>Application of shocks through elasticities</b></li> <li>- <b>Improvement of sectoral distribution methods</b></li> <li>- <b>Simulation tool: GDP components</b> in view of demand, pension expenditure, public consumption.</li> </ul> <p>3. Simulator in trial version.</p> <p>4. Quarterly publication of execution monitoring in national accounting terms for the GG and each of the sub-sectors with assessment of the risk of non-compliance with the stability target in probabilistic terms. This analysis is completed with the main tax figures and social security contributions in cash terms. This monitoring and publication is in addition to the assessment made in the reports.</p> <p>5. Progress has been made in the individual monthly analysis of regional execution.</p> <p>6. The Tableau has been developed, pending the inclusion of the scorecard.</p> <p>7. Executed updating and maintenance, using data in the reports, as well as an early warning system. Data has been periodically updated in the LC database and socio-economic information has been included in the economic-financial data.</p> <p>8. Executed. Data on service costs for 2014 and 2015 were analysed.</p> <p>9. DB implemented, with periodic updating and use of the results for reports.</p>

2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
<b>1 CONTRIBUTE TO BUDGETARY STABILITY</b>		
<b>a Monitor and analyse the economic and budgetary situation</b>		
<p>iii. Detection of relevant issues to the preparation of reports on budgetary stability, whose in-depth analysis is reflected in working papers</p>	<p>Publication of WPs on the following subjects:</p> <ul style="list-style-type: none"> <li>- Non-linear modelling of <b>Spain's</b> GDP</li> <li>- Cross-entropy estimates of financial flows in a from-who-to-whom framework</li> <li>- What is meant by public consumption?</li> <li>- Impact of discretionary measures on the elasticity of tax revenues</li> <li>- Output gap - Analysis of the Regions structural balances. (output gap methodology)</li> <li>- Publication of the history of PA debt.</li> <li>- Development of the sustainability analytical framework by sub-sectors</li> <li>- Analysis of the determinants of local indebtedness</li> <li>- National and comparative fiscal pressure</li> <li>- Health expenditure projections</li> </ul>	<p>Publication of WPs on the following subjects:</p> <ul style="list-style-type: none"> <li>- Non-linear modelling of <b>Spain's</b> GDP</li> <li>- A Game-theoretic analysis of the Spanish system of regional finance</li> <li>- What is meant by public consumption?</li> </ul> <ul style="list-style-type: none"> <li>• Healthcare expenditure projections:</li> </ul> <p>Publication in the methodology of the reports of a general characterisations on healthcare and education expenditure models.</p> <ul style="list-style-type: none"> <li>• Development of a sustainability analysis of the LCs in the reports on the initial budgets and closing forecasts for 2017 and extension to the medium term sustainability assessment in the report on the main budgetary lines for 2018.</li> <li>• Process underway for the rest</li> </ul>
<b>b Help to enforce and improve the design of national and EU fiscal rules</b>		
i. Internal development of the necessary capacities for estimating the variables used in the determination of the fiscal rules, especially the structural balance and the output gap	<ul style="list-style-type: none"> <li>• <b>Continued development of a quarterly model for estimating potential output</b></li> <li>• <b>WP on Output gap</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Quarterly model for estimating potential output</b></li> <li>• <b>Presentation of the methodology in the Output Gap working group of the International IFI Network</b></li> <li>• <b>Draft WP on Output Gap</b></li> </ul>
ii. Analysis on the consistency and compatibility between EU and national rules	<ul style="list-style-type: none"> <li>• <b>Included within the LOEPySF working group</b></li> </ul>	<p>Completed, ongoing process</p>
iii. Analysis and, where appropriate, proposal of methodological improvements in the application of national and EU fiscal rules	<ul style="list-style-type: none"> <li>• <b>Analysis of the expenditure benchmark: Is there a consistent relationship between the rules?</b></li> <li>• <b>Continuity of the LOEPySF working group</b></li> <li>• <b>Production of a WP with the LOEPySF reform proposals</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>The work of the LOEPySF working group continues</b></li> <li>• <b>Analysis of the expenditure benchmark and work underway relating to the consistency and reform of fiscal rules in accordance with the reform envisaged in the EU framework</b></li> </ul>

2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
2 FOSTER THE FINANCIAL SUSTAINABILITY OF PUBLIC ADMINISTRATIONS		
a. Analyse the long-term sustainability of public finances		
i. Monitoring and sustainability analysis of the indebtedness of each of the Public Administrations	<ul style="list-style-type: none"> <li>• <b>Maintenance of an interactive web monitor on debt sustainability for each PA (Tableau format)</b></li> <li>• <b>Publication of WP on the historical series of PA debt</b></li> <li>• <b>WP on the Development of the analytical framework for sustainability by sub-sectors</b></li> <li>• <b>Publication of the Debt Monitor and the AIReF Data Lab.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Maintenance of an interactive web monitor on debt sustainability for each PA (Tableau format)</b></li> <li>• <b>Process underway for the rest</b></li> </ul>
ii. Construction and publication of synthetic and easy-to-communicate indicators to raise awareness of the importance of long-term sustainability	<ul style="list-style-type: none"> <li>• <b>Maintenance of an interactive web monitor with indicators of fiscal and macro stress by Region (Tableau format)</b></li> <li>• <b>Publication of the public debt observatory.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Maintenance of an interactive web monitor with indicators of fiscal and macro stress by Region (Tableau format)</b></li> <li>• <b>Development of the LC Monitor</b></li> </ul>
iii. Analysis of the contingent liabilities and the risks associated with the consolidation perimeter of the PAs (overview of the public sector)	<ul style="list-style-type: none"> <li>• <b>Continuity of the working group on contingent liabilities.</b> The main risks are analysed and information is requested from the responsible agencies in order to incorporate it into the reports and monitoring</li> <li>• <b>Study on the public and business sector of the Autonomous Region of Cantabria</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>The lack of relevant information with respect to contingent liabilities limits the progress of this working group.</b></li> <li>• <b>The draft study on the public business and foundation sector has been carried out and sent to the Region of Cantabria</b></li> </ul>
b. Analysis of the implications of some public policies on long-term sustainability		
i. Analysis of the Social Security system from the perspective of long-term sustainability	<ul style="list-style-type: none"> <li>• <b>Development of a demographic projections model for its integration into a pension expenditure model</b></li> <li>• <b>Update of the analysis of the structural balance of the Social Security system</b></li> <li>• <b>Results of the long-term stochastic projection model</b></li> <li>• <b>Publication of WP on the impact that the pension system reform has had on pensions entered in 2013-2015</b></li> <li>• <b>Incorporation into the microsimulation model of a module that evaluates the impact of pension system reform up to 2030</b></li> <li>• <b>Carrying out a study on the stochastic projection of pension expenditures</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Demographic projections model for its integration into a pension expenditure model, including draft methodology. In process</b></li> <li>• <b>Update of the analysis of the structural balance of the Social Security System underway within the development of the pensions model for PRI</b></li> <li>• <b>Design and preparation of the accounting aggregate model for projecting pension expenditure</b></li> <li>• <b>Draft WP on the impact of the 2013-2015 pension system reform</b></li> <li>• <b>In process. Microsimulation model to evaluate the impact of the reform</b></li> <li>• <b>Presentation of the preliminary results at the Appearance before the Commission on the Toledo Pact and PRI Opinion</b></li> </ul>

2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
2 FOSTER THE FINANCIAL SUSTAINABILITY OF PUBLIC ADMINISTRATIONS		
b. Analysis of the implications of some public policies on long-term sustainability		
ii. Analysis of the effect of aging on all public policies, especially on pensions, healthcare and social services	<ul style="list-style-type: none"> <li>• <b>Transmission to the Regions of the results</b> obtained from the healthcare and education forecast models for their comparison and contrast. Incorporation, where appropriate, of the improvements that can be made by the Regions into the AIREF healthcare and education expenditure forecast models.</li> <li>- Study of the possibility of developing a social services expenditure projection model for the Regions</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Healthcare and education</b> expenditure documents sent to the Regions</li> <li>• <b>The possibility of expanding these models</b> to the scope of social services will continue to be assessed, through the analysis of the expenditure programmes of the different Regions</li> </ul>
iii. Identification of other factors (technology, birth rate, mortality, morbidity, migratory movements, etc.) that affect the PAs' budgets	Development of the work on migratory movements	Initial version of the model for projecting migratory movements
iv. Analysis of trends and long-term dynamics of the main expenditure components: healthcare, education and social services, among others	<ul style="list-style-type: none"> <li>- Review of GG expenditure by order of the MINHAF</li> <li>- Publication of the Opinion on the application of the formula for calculating the rate of contribution for the cessation of activity benefit</li> <li>- Continuity of the monitoring of the average payment period of the Regions.</li> <li>- Analysis of the average payment period of the LCs.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Underway. The 2018 Spending Review Action Plan</b> has been presented and work has begun.</li> <li>• <b>The Opinion on the application of the formula for calculating the rate of contribution for the cessation of activity benefit</b> has been published following approval of the GSB that determined the contribution rate</li> <li>• <b>The APP of the TAs has been monitored and analysed</b></li> <li>• <b>In the context of the LCs, this parameter</b> has been included in the sustainability alerts system integrated into the LC information system</li> </ul>
3 IMPROVE THE TRANSPARENCY AND BUDGETARY PRACTICES IN THE MANAGEMENT OF PUBLIC ACCOUNTS		
a. Foster the transparency of the Public Administrations in the management of their resources		
i. Identification of the gaps in the existing budgetary and economic information	<ul style="list-style-type: none"> <li>• <b>Continue the attempts to form agreements</b> with the MINHAF on the provision of information</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Proposals for agreements</b> have been prepared for negotiation with the MINHAF</li> <li>• <b>The gaps still existing in the information published and provided</b> continue to be highlighted in reports</li> </ul>
ii. Contribute to the standardisation, simplification and distribution of information relating to budgetary stability and financial sustainability	<ul style="list-style-type: none"> <li>• <b>Maintenance/improvement of the interactive web monitor</b> with fiscal and macro stress indicators by Region.</li> <li>• <b>Publication of the LC Monitor</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Maintenance of an interactive web monitor</b> with monitor with fiscal and macro stress indicators by Region (Tableau format)</li> <li>• <b>Development of the LC Monitor</b></li> </ul>

2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
3. IMPROVE THE TRANSPARENCY AND BUDGETARY PRACTICES IN THE MANAGEMENT OF PUBLIC ACCOUNTS		
a. Foster the transparency of the Public Administrations in the management of their resources		
iii. Analysis of the budgetary execution data and the degree of compliance with the approved budgets	- Extend the analysis of the representativeness of the initial budgets to all LGs	<ul style="list-style-type: none"> <li>• <b>Executed. The analysis has been</b> extended to all LCs and further deepened by incorporating the assessment of the individual data of all the LCs. These analyses were taken into account when preparing the reports issued</li> </ul>
iv. Analysis of the application of the expenditure rule	- Participation in the working group proposed by the MINHAP for the review and application of the expenditure rule	<ul style="list-style-type: none"> <li>• <b>Executed as planned</b></li> </ul>
b. Help to improve budgetary procedures and the harmonisation of the budgetary structures of all Public Administrations		
i. Analysis and identification of the best budgetary practices at the national and international levels	<ul style="list-style-type: none"> <li>• <b>Chairmanship and formalisation</b> of the EU IFI network</li> <li>• <b>Participation in</b> the IFI network and the OECD Budget Offices</li> </ul>	<ul style="list-style-type: none"> <li>• <b>AIReF President reinstated as</b> Chairman of EU IFI network</li> <li>• <b>Organisation and participation</b> in four meetings of the EU IFI network</li> <li>• <b>Participation in the ninth</b> reunion of the Network of PBOs and IFIs of the OECD</li> <li>• <b>Contacts with EU Institutions</b> and the EFB</li> </ul>
ii. Analysis and diagnosis of improvements in results-based budgeting and other performance indicator systems	<ul style="list-style-type: none"> <li>• <b>Continuity of the working group</b> on good practices in budgetary matters</li> <li>• <b>Preparation of a WP</b> reviewing the programme structures</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Continuity of the working group</b> on good practices in budgetary matters</li> <li>• <b>WP reviewing the programme</b> structures being prepared, which will be linked to Aim 1 of the Spending Review</li> </ul>
c. Promote and analyse the application of a multi-year framework in budgetary planning		
i. Analysis and proposals for the application of a multi-year framework in the budgetary planning processes	<ul style="list-style-type: none"> <li>• <b>Maintaining momentum within</b> the EU IFI network</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Participation in the working</b> group of the IFI network on MBTF. Attendance and participation at the Rome seminar</li> </ul>
ii. Promote and contribute to the estimation and publication of the economic and budgetary effects in the short, medium and long term of the reform measures undertaken by the PAs	<ul style="list-style-type: none"> <li>• <b>Continuity of the normative</b> impact analysis to assess the trend income and expenditures, including SSF measures. Extension of the study in quarterly terms. Development of a micro-simulator for the PIT to evaluate the impact of regulatory measures</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Integration with the WP:</b> 'Impact of discretionary measures on the elasticity of tax revenues'</li> <li>• <b>Work on the development of</b> the micro-simulator began, which are still underway</li> </ul>

2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
4. HELP SPANISH SOCIETY TO PERCEIVE THE BENEFITS OF BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY		
a. Define and implement a communication strategy		
i. Define and implement a global communication strategy which includes the web page, media and social networks	<ul style="list-style-type: none"> <li>• <b>New web page</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Implementation of a new web platform</b></li> <li>• <b>Implementation of the global communication strategy is still underway</b></li> </ul>
ii. Easy access by society to the work carried out by AIReF (web page)	<ul style="list-style-type: none"> <li>• <b>Preparation of an informative blog about public finances</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>It was decided to use other digital tools (newsletter, etc.)</b></li> </ul>
iii. Appearances before Parliament	<ul style="list-style-type: none"> <li>• <b>At the request of Parliament</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>The President appeared before various commissions of Parliament specifically:</b> <ul style="list-style-type: none"> <li>- Before Congress: twice before the Commission on Budgets, once before the Commission on Economy, Industry and Competitiveness, once before the Commission on the Toledo Pact and once before the Commission on Employment.</li> <li>- Before the Senate, once before the Commission on Budgets</li> </ul> </li> </ul>
iv. Participation in discussion forums to explain the work of the AIReF	<ul style="list-style-type: none"> <li>• <b>Technical meetings between AIReF and the Bank of Spain</b></li> <li>• <b>Maintain a presence in the forums to explain AIReF's work</b></li> <li>• <b>Meetings with the TAs, international agencies and other institutions</b></li> <li>• <b>Bilateral relationships with other IFIs</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Technical meetings between AIReF and the Bank of Spain</b></li> <li>• <b>Maintain a presence in the forums to explain AIReF's work</b></li> <li>• <b>Meetings with the TAs, international agencies (IMF, OECD) and other institutions</b></li> <li>• <b>Bilateral relationships with other IFIs</b></li> </ul>
b. Promotion of fiscal awareness in society as a whole		
i Produce teaching material with informative content for the public	<ul style="list-style-type: none"> <li>• <b>Preparation of an educational WP on the GSB</b></li> </ul>	Currently being developed alongside the WP reviewing the structure by programmes
ii Organisation of internal and external seminars and conferences on issues of budgetary stability and financial sustainability	<ul style="list-style-type: none"> <li>• <b>Organisation of a seminar with the LCs and their supervisory bodies</b></li> <li>• <b>Organisation of a seminar on the sustainability of public finances</b></li> <li>• <b>Joint organisation with the Government of Cantabria of a course at the UIMP on 'Fiscal governance in decentralised countries'</b></li> <li>• <b>Organisation of technical seminars/conferences</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Pending</b></li> <li>• <b>Organisation of a seminar on the sustainability of public finances</b></li> <li>• <b>Joint organisation with the Government of Cantabria of a course at the UIMP on 'Fiscal governance in decentralised countries'</b></li> <li>• <b>Organisation of technical seminars/conferences</b></li> </ul>
c. Promote economic research in the field of fiscal policy		
i Publication of working documents on fiscal policy	<ul style="list-style-type: none"> <li>• <b>WPs already cited in previous sections</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>WPs published and being prepared.</b></li> </ul>



2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
4. HELP SPANISH SOCIETY TO PERCEIVE THE BENEFITS OF BUDGETARY STABILITY AND FINANCIAL SUSTAINABILITY		
c. Promote economic research in the field of fiscal policy		
ii Establish mechanisms for collaboration with universities and research centres, international institutions and other independent fiscal institutions to carry out research	<ul style="list-style-type: none"> <li>• <b>Participation in Finland for the presentation of the AIReF output gap methodology</b></li> <li>• <b>Possible participation in Brussels on the impact of discretionary measures on the elasticity of tax revenue</b></li> <li>• <b>Collaboration in the project with the IMF on sustainability metrics</b></li> <li>• <b>Technical exchanges with IFIs</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Participation in Finland for the presentation of the AIReF output gap methodology</b></li> <li>• <b>Participation in Brussels on the impact of discretionary measures on the elasticity of tax revenue</b></li> <li>• <b>Work has begun and pending collaboration on the project with the IMF on sustainability metrics</b></li> <li>• <b>Technical exchanges with IFIs</b></li> </ul>
iii Research and study internship programmes at AIReF	New announcement	• <b>The second announcement has been finalised and eleven grants have been chosen for the third</b>
5. CROSS-CUTTING AIM. CREATE AN EFFICIENT AND TRANSPARENT AIReF		
a. Design and preparation of reports, opinions and studies		
i Internal evaluation of procedures and methodologies	• <b>Analysis of the evaluation of AIReF's own forecasts</b>	• <b>The evolution of fiscal forecasts is monitored</b>
ii Development of an internal procedure and manual on good practices in preparing reports	• <b>Proposal of a MoU with the MINHAF</b>	• <b>Proposals for agreements have been prepared for negotiation with the MINHAF, although not yet materialised</b>
iii Production and publication of the report and opinion methodologies	• <b>Evaluation and adaptation of existing methodologies</b>	• <b>Completed as planned, continuously underway</b>
iv Advisory Board on Economic and Budgetary and Institutional Matters	• <b>Four planned meetings</b>	• <b>Four meetings were held and a new member was appointed</b>
b. Substantiate the 'comply or explain' principle and the duty of collaboration when submitting information		
i Application of the principle of 'comply or explain' and monitoring of recommendations	<ul style="list-style-type: none"> <li>• <b>Quarterly publication of the monitoring of recommendations</b></li> <li>• <b>Creation of a recommendation database</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Continued quarterly publication of the monitoring of recommendations</b></li> <li>• <b>Creation of a recommendation database has begun, which is in its development phase</b></li> </ul>
ii Definition and compilation of the information necessary for the preparation of the reports	• <b>Publication of the monitoring on information requests made by AIReF</b>	• <b>Monitoring is published in the report through the point of access to information</b>
iii Impetus of the Economic-Financial Information Centre and collaboration mechanisms	<ul style="list-style-type: none"> <li>• <b>Proposal for an MoU and agreement with the MINHAF on the provision of information</b></li> <li>• <b>Proposed agreement with the Bank of Spain</b></li> </ul>	<ul style="list-style-type: none"> <li>- <b>Proposals have been planned for the preparation of an MoU and agreement with the MINHAF on the provision of information, pending materialisation</b></li> <li>- <b>Agreement made with the Bank of Spain</b></li> </ul>

2015-2020 STRATEGIC PLAN	Proposals for 2017 Actions planned	Situation at 31/12/2017 Work carried out
5. CROSS-CUTTING AIM. CREATE AN EFFICIENT AND TRANSPARENT AIREF		
<b>b. Substantiate the 'comply or explain' principle and the duty of collaboration when submitting information</b>		
iv. Collaboration with the Technical Committee for National Accounts	<ul style="list-style-type: none"> <li>• <b>Formalisation of relations with the TCNA</b> once they have approved their internal regulations</li> </ul>	<ul style="list-style-type: none"> <li>• <b>The internal regulations have not yet been approved</b>, however, at the request of AIREF, the TCNA provided the reports prepared</li> </ul>
<b>c. Effective and transparent management of human and financial resources</b>		
i. Consolidation and maintenance of a competent human team	<ul style="list-style-type: none"> <li>• <b>Proposal to expand the staff establishment plan</b></li> </ul>	The proposal presented was approved by the CECIR on September 5, 2017, creating seven new job positions and reclassifying three Secretary positions upwards
ii. Development of objective evaluation elements for the completed work		Completed.
iii. Creation of an independent administrative and management structure	<ul style="list-style-type: none"> <li>• <b>Implementation of Electronic Administration:</b> electronic payment service and electronic processing of files for the electronic headquarters. Development and implementation of the fee management application</li> </ul>	Finalised.
iv. Establishment of a system for the evaluation and monitoring of AIREF activity, including an external mid-term evaluation	<ul style="list-style-type: none"> <li>• <b>Completion of an external evaluation of AIREF</b></li> </ul>	Finalised.



# Principle of comply or explain - OECD external evaluation



RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
INPUTS			
<p>1. AIReF and MINHAFP and/or relevant administrations should work collaboratively <b>to develop a MoU</b> on access to information, establishing what information AIReF needs to fulfil its mandate and mutually agreeable and collaborative processes for information requests, including indicative and realistic timeframes for responses, steps to take when requests are not or cannot be complied with, and provisions regarding the treatment of confidential data. This is in line with OECD Principle 6.1.</p>	<p>COMPLY</p> <p>(Also requires compliance from the counterparts of the MoU)</p>	<p><b>Integrated into the revision of the 2015-2020 strategic plan.</b> The preparation of Memoranda of Understanding (MoU), agreements or procedures for the exchange of information and the development of institutional relations between AIReF and the main Public Administrations is planned (5.b. iii). AIReF has already taken the initiative with some administrations:</p> <ol style="list-style-type: none"> <li><b>1. Proposal to sign MoU with the State Secretariat for Economy</b> and Business Support. AIReF has initiated contacts with said Secretariat with the objective of establishing MoU in time for AIReF's Report on the 2019 General State Budgets .</li> <li><b>2. Proposal to sign MoU with the MINHAFP</b> at the initiative of AIReF. Proposal made on several occasions, most recently with AIReF's observations on the proposal to amend AIReF's Organic Statute.</li> <li><b>3. AIReF's proposal for direct access to databases</b> (or periodic transfers) of relevant and important information for AIReF's work, especially at the local level. This would minimise sporadic requests.</li> <li><b>4. Signed a collaboration agreement with the Bank of Spain</b> (July 2017) that includes the regular exchange of information on the public administrations' debt and financial accounts for each sub-sector.</li> </ol>	<p>September 2018</p> <p>2018</p> <p>2018</p> <p>Executed</p>
<p>2. Where there are issues around timing of access to information, consideration should be given to allowing AIReF advance sight of data or documents on a confidential basis. The strategy of giving the IFI advance sight of data on a confidential basis has been used successfully by peer IFIs and their government counterparts and would have the potential <b>benefit of strengthening AIReF's analysis and the timeliness of its work.</b></p>	<p>NOT DIRECTED AT AIReF</p>	<p><b>To be considered by other administrations,</b> mainly the MINHAFP. AIReF will take this into <b>account when drafting proposals for MoU on information</b> with the various administrations, who, in turn, should consider this recommendation from the OECD.</p>	

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
<p>3. A multiannual funding commitment should be considered for AIReF, covering the period of the medium term expenditure framework, to further enhance its independence and provide additional protection from political pressures, or perceptions by stakeholders that AIReF could be subject to political pressures. This would have the added benefit of improving the predictability of funding for AIReF. In the longer term, it may be useful to review the budget process for AIReF in light of OECD Principle 4.1 which also states that the appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies</p>	NOT DIRECTED AT AIReF	To be considered by other administrations, mainly the MINHAFP. AIReF is willing to provide the necessary documentation and analysis for consideration by the competent administration	
<p>4. <b>In light of AIReF's already extremely broad mandate</b>, and the new demands being placed on AIReF, there should be a reassessment of whether the resources allocated to AIReF are commensurate with its mandate, as outlined in OECD Principle 4.1. Such an assessment should include a review of the sufficiency of the supervision fee system in <b>meeting AIReF's budgetary needs</b>.</p>	NOT DIRECTED AT AIReF	<b>To be considered by other administrations</b> , mainly the MINHAFP. AIReF will request a new expansion of its staff in response to the new spending review functions now entrusted to AIReF and <b>will continue to prompt the MINHAFP to reconsider</b> whether the resources are commensurate to the mandate. An increase in the <b>supervision fee</b> was requested in time for the preparation of the 2018 General State Budgets.	
<p>5. AIReF should avoid taking on additional tasks unless they are given commensurate resources to undertake these new tasks with in-house staff. More generally, AIReF should use outside contractors sparingly. For a limited number of projects AIReF has had to rely on consultants. Doing so creates potential risks around consistency, transparency, independence, and communication of the results, especially for a young organisation. In the longer term, it may <b>also impact AIReF's ability</b> to generate and sustain internal professional capacity.</p>	EXPLAIN	<b>This has been the practice applied by AIReF hitherto.</b> Only occasional recourse has been made, and it has been duly justified by the need to complete AIReF's analysis capacity with very specific needs linked to partial and technical work, mainly data collection. In addition, AIReF maintains total control of the work, without compromising its analytical capacity or the direction of the work. AIReF has followed this same philosophy for conducting the spending review and, therefore, has combined the expansion of its permanent staff with outsourcing of specific tasks, through advertising and competition, without affecting the control and direction of the AIReF project.	

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
<p>6. In the longer term, the calendar for AIReF reports should be revisited in light of information constraints. One practical solution would be to indicate a time period for analysis upon the receipt of the necessary information rather than specific calendar dates. Changes to <b>the calendar would reopen AIReF's Organic Law</b> to amendment and so may not be practicable in the near term but should be considered when an appropriate political and legislative juncture arises.</p>	NOT DIRECTED AT AIReF	To be considered by other administrations, mainly the MINHAFP. AIReF will request a new expansion of its staff in response to the new spending review functions now entrusted to AIReF and will continue to prompt the MINHAFP to reconsider whether the resources are commensurate to the mandate. An increase in the supervision fee was requested in time for the preparation of the 2018 General State Budgets.	
METHODOLOGY AND OUTPUTS			
<p>7. AIReF should regularly include projections for a medium-term period of three to five years beyond the current year. Shifting some of the existing focus and resources to more emphasis on the mid-term would improve <b>the balance in AIReF's work. With some exceptions, the majority of AIReF's products</b> over the past few years have been heavily focused on near-term estimates for the current year and the upcoming budget year and would benefit from a medium-term perspective.</p>	COMPLY	Integrated into the revision of the 2015-2020 strategic plan. Establishing medium-term fiscal projections and their connection to economic activity (2.a. ii).	2018
<p>8. When documenting its analysis, AIReF should include more tables with summaries of numbers and more graphics to show recent history and the near- or medium-term projections of economic and budgetary results. <b>Some AIReF reports tend to be "text-heavy" with minimal use of numeric tables or data visualizations.</b> As reports are expanded to include more years of budget projections (as recommended above), it would also be helpful to include line- or bar- charts to present the multiple years of analytic results. Including recent history of budget aggregates in such graphs would further assist in presenting the <b>context for AIReF's forward-looking</b> projections.</p>	COMPLY	Integrated into the revision of the 2015-2020 strategic plan. Expanding the provision of information through greater use of graphic tools and connection to the AIReF web platform (5.a.i). As of 2018, the reports will seek a better balance between the provision of more synthetic information using charts and tables, without compromising the explanatory content of the reports. An effort will be made to reduce the text in the main body of the reports, resorting, when necessary, to the provision of additional information in annexes. Greater connection with the AIReF website's graphic platform.	2018
<p>9. AIReF reports should include more details on both its economic and budgetary estimates. Most reports have presented high-level summaries of AIReF projections. It would be useful to include the key components of those summary totals that AIReF has prepared during its analysis. Such underlying details can provide helpful context for the top-line totals.</p>	COMPLY	Integrated into the revision of the 2015-2020 strategic plan. Providing further depth in the provision of information through greater use of graphic tools and connection to the AIReF web platform (5.a.i). Whenever possible, the reports to be published after 2018 will provide more information on the components that make up the different fiscal and macroeconomic aggregates.	2018

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
10. AIReF should continue to conduct and publish regular self-evaluations of its economic forecasts and budget projection records. This may include an examination of the accuracy of their projections and of whether there have been any significant biases underlying past forecasts by the government or by AIReF, with attempts made to understand the underlying causes of inaccuracies. AIReF will benefit from continuing to compare past forecasts against both observed data and the projections of other forecasters.	COMPLY	Integrated into the revision of the 2015-2020 strategic plan. Self-assessment of the quality of short and medium term macro-fiscal forecasts (1.a.iv). Although AIReF's forecast history is still relatively short, work can begin on assessing the forecasts of the main macroeconomic indicators, tax forecasts and some of the main expenditure variables. The bias analysis of the government's macroeconomic forecasts will be maintained.	2019
11. AIReF should periodically review the decision to refrain from publishing its own independent macroeconomic forecast. While AIReF has chosen to focus on its endorsement role and the uncertainty of such forecasts (as opposed to providing point estimates of its own), there may come a time over the longer term when it may be both informative and useful to the public debate for AIReF to eventually publish its own staff projections for the Spanish economy	EXPLAIN	<b>AIReF has taken the strategic decision not to compete with other economic forecasts</b> (especially the official ones) and to focus on its role as "evaluator" and, in particular, identifying any uncertainty surrounding them. This strategy is sensible in a supervisory model in which the IFI is assigned "endorsement" functions.	
SUB-NATIONAL SCOPE			
12. AIReF should continue to develop its already well-received work on benchmarking regions and municipalities. Given the number of municipalities, a focus on the most fiscally stressed municipalities would be particularly useful	COMPLY	Integrated into the revision of the 2015-2020 strategic plan : 1. Incorporation of benchmarking techniques into the analysis of the economic and budgetary situation of the Public Administrations and, therefore, of the Regions and Local Governments (1.a.v). AIReF has begun to analyse the healthcare and education expenditure of the Regions and plans to expand to social services. AIReF has begun using Local Government fiscal databases (including effective costs for provision of services) that will allow a comparative analysis for its work with the Spanish Federation of Municipalities and Provinces. 2. Spending Review (SR), for the General Government based on strategy, procedure, efficiency and effectiveness evaluations (3.a.i). The spending review of policies with sub-national level competences will require the use of benchmarking techniques to identify efficient frontiers. Non-hospital pharmaceutical expenditure and active labour market policies will be analysed in 2018.	2018

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
13. Where resources allow, AIReF should broaden communication and engagement efforts at the subnational level. There is demand for AIReF to increase its engagement with non-governmental stakeholders at the regional level, including with regional parliaments, the press, and academics.	EXPLAIN	There is already an intense communication and a strong relationship with regional and local administrations: individualized delivery of reports to regional media or the use of streaming with local media; possibility of the President attending regional parliaments, provided that the invitations are directly related to fiscal supervision. AIReF participates in regional academic forums.	
14. In the longer term, AIReF should focus on improving the quality and deepening the reach of existing regional and local analysis, developing more detailed and robust regional economic models and broadening the coverage of its work to include smaller municipalities. In addition, to further enrich the debate on sub-national fiscal sustainability, AIReF should continue to develop its self-initiated analysis on the vertical distribution of fiscal targets across different levels of government as a complement to its mandatory report on the horizontal distribution of targets. In future, <b>should AIReF's mandate be revisited</b> , stakeholders may wish to consider whether analysis on the vertical distribution should <b>become a mandatory part of AIReF's work</b> . Again, this new engagement has resource implications that must be taken into consideration.	COMPLY / EXPLAIN	<p>Comply:</p> <ol style="list-style-type: none"> <li>1. AIReF will continue to expand its regional analysis, with plans to start the development of a social services spending forecast model for the Regions. The design and use of a Regional database similar to that developed at the local level (Integrated into the revision of the 2015-2020 strategic plan -1.a.ii) is being considered.</li> <li>2. Analysis of the vertical distribution of targets</li> </ol> <p>Explain: AIReF has gradually expanded the coverage of its fiscal supervision over the Local Corporations. There is an exhaustive monitoring of 21 Local Corporations, but this cannot be individually replicated for each of the over 8,000 city councils. Therefore, AIReF has developed a tool to identify those municipalities with problematic situations, thus being able to adequately perform the function of fiscal supervisor. This tool will continue to be improved and will complement the continued analysis of the 21 largest Local Corporations.</p>	2018
IMPACT			
15. AIReF should pursue a strategy of increased selectivity regarding its comply-or-explain recommendations with the aim of emphasising and focusing on its most important messages in subsequent dialogue with relevant administrations and in its public follow-up. AIReF may also wish to consider testing different approaches to ascertain their effect on compliance rates, for example, varying the time given to comply according to complexity of the recommendation.	COMPLY	Comply: redesigning the current database of recommendations to facilitate statistical monitoring and permit more effective application in practice. Reconsider the criteria for classifying the recommendations, in particular the recommendations that are repeatedly made. Adjust the compliance deadlines according to the nature and complexity of the recommendations made. Continue to maintain a selective strategy in the formulation of recommendations, adapting them to the unique characteristics of the administration/entity to which they are issued.	2018

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
<p>16. AIReF should develop materials that are more accessible for non-technical stakeholders at both the national and subnational level. This may include short <b>summaries of the key messages of AIReF's</b> most important reports. Accessibility would also be facilitated by continuing to develop a distinct and consistent "design language" to <b>facilitate navigation across AIReF's reports and</b> highlight key information both in print and online.</p>	COMPLY	Integrated into the revision of the 2015-2020 strategic plan. Strengthening the informative nature of AIReF documents so that they are more accessible to the general public (4.b.i). Infographics will be prepared, whenever possible. The most important messages will be identified and will be subject to individualised dissemination through the website and social networks.	2018
<p>17. Building on its already well-developed communications with print and online press, AIReF should promote its most important reports in a targeted way through a broader range of media that have the potential to reach a wider public. Television appearances <b>by AIReF's President are one option with the potential to bring AIReF's work to a larger</b> audience but should be highly selective to minimise the noise-to-signal ratio and to increase the chance of key messages penetrating the public debate.</p>	COMPLY	A very selective and prudent policy for mass media presence that in any case would be in interview format and occasional, considering not only television but also radio, provided that this presence is justified. More press conferences are a possibility to consider.	2018
<p><b>18. AIReF should set clear and measurable communications targets regarding its communications via social media platforms</b> AIReF should consider limiting the resources it dedicates to communication via social media platforms where there has been demonstrably lower response from stakeholders and focus on tools that have shown higher potential for uptake such as Twitter.</p>	COMPLY / EXPLAIN	<p>Comply: focusing greater attention on Twitter, analysing the experience of the more successful IFIs (United Kingdom and Ireland) and holding an internal information session to facilitate its use.</p> <p>Explain: the presence on apparently less successful platforms is justified by the interest of the specialised public that uses them and this presence is not expensive.</p>	2018
<p><b>19. AIReF should expand its outreach to academics and universities.</b> Research faculty and students today represent an important current and future constituency for AIReF analysis.</p>	COMPLY / EXPLAIN	<p>Comply: identification of universities/research centres of interest to AIReF.</p> <p>Explain: AIReF upholds regular collaborations with universities and research centres. There is an internship program with universities. AIReF frequently attends academic debate forums.</p>	2018



RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
20. AIREF should periodically undertake stakeholder satisfaction surveys for key stakeholder groups such as parliamentarians and academics.	EXPLAIN	The OECD external review of AIREF has involved a direct relationship between the evaluator and all AIREF stakeholder administrations, as well as with other entities with which it collaborates, and a constant dialogue must be maintained. In line with the practice of other IFIs, these satisfaction surveys could be used as a prior input to external evaluations. They should be considered for the next round of external evaluations.	





## Principle of comply or explain - Report of the Court of Auditors

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
4.1 a) Establish a system to record assets received by means of a change of public domain at their reasonable value and account for all that have been received through said change of public domain.	COMPLY	In the annual accounts for the year 2017: 1. The 1,279.63 square meters assigned to <b>AIReF's headquarters and the 11.70 square meters</b> assigned as storage will be accounted for according to the value provided by the Region of Madrid for the purposes of the Tax on Onerous Property Transfers. 2. Regarding the 248.10 meters assigned as shared surface with the General Directorate for Economic Policy (DGPE), this executive centre will be consulted, since the solution does not depend exclusively on AIReF. 3. In relation to the 200 square meters used by AIReF without ownership (temporary), the accounting procedure will be consulted with the IGAE, since the criterion transmitted orally is that the accounting of the institution that uses the premises without ownership should not be reflected upon.	March 2018 Formulation of 2017 National Accounts
4.1 b) The appropriate mechanisms should be established to reclassify and appropriately amortise the items recorded in account 211 "Constructions" and that correspond to the accounts of "Furniture" and / or 212 "Technical installations".	COMPLY	The relevant accounting modifications will be made in the annual accounts corresponding to 2017.	March 2018 Formulation of 2017 National Accounts
4.1 c) It should be noted that in the management process established for the preparation of the reports, all the requirements established in the third section "Annual accounts of the General Public	COMPLY	The Report published on the website will be the one approved according to the Technical Specifications Document provided by the IGAE for annual accountability through the RED.Coa System.	January 2018
4.2 a) Adopt the appropriate measures to sign the corresponding collaboration agreement with the Bank of Spain	COMPLY	In December 2017, AIReF sent a draft <b>"Specific Agreement" to the Bank of Spain</b> in implementation of the second clause of the Agreement of July 4, 2017 (Official State Gazette - BOE of July 10). At the meeting of the mixed mission scheduled for the end of January 2018 AIReF will insist on the need to formalise the "Specific Agreements" for all Bank of Spain staff placements	January 2018
4.2 b) It is necessary to establish the process of regulating the management of personnel, to approve the work calendar through which the working day is distributed and staff schedules are set.	COMPLY	AIReF's President has already decreed a Resolution approving the work calendar	Executed

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
4.2 c) Establish the appropriate mechanisms to issue specific instructions regarding the settlement of the productivity bonus and publish the amounts settled by said remuneration concept for the knowledge of AIReF employees	COMPLY	AIReF's President has already issued instructions on how to settle the productivity bonus. The amounts received by the employees are already published on the <b>institution's bulletin board</b> .	Executed
4.2 d) In the preparation of the contribution models TC1 and TC2 , the amounts that are granted to employees as aid for meals and transportation must be included in the contribution bases for all the contingencies and situations covered by the protective action of the General Scheme.	COMPLY	In the TC1 and TC2 contribution models for the month of January 2018, the amounts for food aid and transportation credit are already included.	Executed
4.3 a) Enforcement of the justification in the economic reports on the determination of the prices envisaged in the contracts should be strengthened.	COMPLY	AIReF is committed to strengthening the justification of prices in the economic reports of the contracts.	January 2018
4.3 b) Only criteria that refer to the object of the contract should be used as award criteria.	EXPLAIN	As has always been done in AIReF, it will continue to use award criteria related to the object of the contract	
4.4 Establish a mechanism to carry out, in the management of assignments, specific monitoring of the subcontracted activities of the companies responsible for carrying out the work and their actual cost, and to verify whether the Consolidated Law on Public Sector Contracts (TRL CSP) has been complied with.	COMPLY	In the documents for the formalisation of the assignments signed in advance, specific clauses will be included to <b>guarantee AIReF's monitoring of compliance</b> by those assigned of the provisions regarding subcontracting.	Executed

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
<p>4.5 Provide sufficient detail on the following in the Strategic Plan on Subsidies:</p> <p>a) The effects that are intended to be achieved with the object of the subsidies to be granted.</p> <p>b) The deadline established for the achievement of each of the indicators necessary to achieve the expected targets.</p> <p>c) The foreseeable costs for its implementation and the sources of financing</p> <p>d) The mechanism for monitoring and evaluating the targets of the Plan.</p>	COMPLY	<p>AIReF's <b>Strategic Plan on Subsidies</b> presents the general framework that governs the different lines of subsidy planned. Currently, the only open line is related to the promotion of training and research in the fields of their activity, through the granting of annual scholarships, through Universities and / or official postgraduate academic centres.</p> <p>AIReF is committed to modifying its Strategic Plan on Subsidies to include an assessment of the achievement of the targets initially envisaged in all current subsidy lines. The generic targets indicated in the Strategic Plan will be translated into a series of measurable objectives. In addition, the indicators for the evaluation of the achievement of said objectives, defined according to the best practices at the international level, will be specified. Lastly, AIReF undertakes to monitor the achievement of the Plan's targets on an annual basis, following the criteria detailed in the respective methodological Resolution.</p>	March 2018
4.5 Services that must be contracted under the provisions of the TRLCSP should no longer be processed as a subsidy line.	EXPLAIN	In no case has AIReF processed services that must be contracted under the provisions of the TRLCSP as a subsidy line.	
4.6 Establish mechanisms to resolve the deficiencies presented by the transparency portal in accordance with the provisions of the Law on Transparency, Access to Public Information and Good Governance (LTAIPBG).	COMPLY	Most of the deficiencies have already been corrected.	Executed
4.7 a) Establish the appropriate mechanisms so that AIReF, pursuant to the provisions of arts. 1 and 3 of its establishing Law adequately exercises its functions with respect to all the members of the public sector.	COMPLY	Article 1 of Organic Law 6/2013 establishes that AIReF shall exercise its functions with respect to the PAs. On the other hand, article 3 of this law specifies the scope, stating that, for these purposes, PAs are all the subjects that make up the public sector in the terms foreseen in article 2 of the LOEPySF. Point 3.12 of the report notes the insufficient human resources available to AIReF for the fulfilment of all its functions, particularly in the field of the LGs. AIReF shares this assessment and will shortly request the CECIR to expand the staff establishment plan to correct these deficiencies.	April 2018

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
4.7 b) The enforcement of the approval of the methodology that defines the specific circumstances that can determine the issue of a "public warning" due to the lack of contribution by the members of the public sector of the documentation requested as well as the circumstances in which non-compliance would be considered serious or repeated, and the subjects to whom the public warning will be directed, must be strengthened. This methodology must be sent to all PAs and published on their website.	EXPLAIN	In accordance with article 4.3 of the Organic Law 6/2013, it is the responsibility of AIREF's President to assess whether it is a serious or repeated non-compliance with the duty of collaboration. This assessment must be made on a case-by-case basis and depending on the concurrent circumstances, which are absolutely impossible to foresee in advance. Therefore it is inappropriate to approve methodology that is also not envisaged in the regulations.	
4.7 c) Prepare a Manual on the management processes established by the Economic Analysis Division.	EXPLAIN	AIREF is a small entity with a multidisciplinary approach. Most of its daily work consists of elements of a horizontal nature, involving workers from different Divisions. The specification of tasks and responsibilities assigned to each job position belonging to the Economic Analysis Division can only be understood in a framework of flexible institutional functioning, where the burden of the work regularly performed is in addition to specific projects, ad-hoc, that support and underlie the issuance of reports and opinions, as well as the institutional activity of its President. In this context, a manual on management processes lacks added value and the effort of the Economic Analysis Division has focused on the extensive documentation and dissemination of its work methodologies, both for an expert audience through technical working documents as well as for general public opinion in more accessible formats.	
4.7 d) Establish mechanisms to approve and publish the Resolutions that, prior to the issuance of the reports, include the methodology, the criteria and the specific aspects to be assessed in them, specifying the manner in which the Authority determines its opinion, and defining the possible limitations to the scope of the work and their consequences, as well as the difference between the recommendations made and the suggestions for good practices.	EXPLAIN	<b>AIREF's President's Resolutions published to date</b> in relation to the content and / or methodology of the reports under his responsibility detail the models and methods used for the formation of his criterion and underlying his analysis and conclusions. Increasingly, the practice has resulted in the direct inclusion in the reports of a specific methodological section. It should be noted that the very nature of the reports and opinions published by AIREF prevents the codification or establishment of an ex-ante algorithm for the assessment of aspects such as limitations on the scope of the work performed or their consequences, which will require case by case interpretation.	

RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
4.7 e) Promote the opinion of the Advisory Board , which is made up of experts in budgetary, economic and financial analysis, on the methodology applied by the Entity in order to issue its assessment in the reports as well as the definition of the bias as "significant" .	EXPLAIN	<p>The definition of the concept of "significant bias" was established in Resolution 4/2014, of September 26, 2014, and could not count on the opinion of the Advisory Board, which was established later, by Resolution 12/15 of February 26, 2015</p> <p>AIReF considers it good practice to have the opinion and assessment of the Advisory Board on methodological and content aspects of its main outputs, and this can be verified in the minutes of the Board meetings, published on its web page.</p>	
4.7 f) Promote the establishment of the necessary processes to include the ex post evaluation of the existence of significant bias in macroeconomic forecasts in a period of four consecutive years, according to the provisions of art. 4.6 of Council Directive 2011/85 / EU, in the reports related to the Regions should be promoted.	EXPLAIN	<p>In its observations on the Preliminary draft audit report, AIReF acknowledges the impossibility of having a homogeneous approach in the case of the assessment of the reports on the macroeconomic scenario of the State and the Regions. There is significant heterogeneity in the degree of detail of the information provided in both cases. Specifically, regarding the absence of ex-post evaluation of the existence of significant biases in the regional forecasts, it should be noted that little information is provided by the Regions prior the preparation of their budgets and is sometimes partial. Also, in the case of a series of Regions, the official forecasts are not differentiated and are closely based on the existing forecasts at the State level. In this context, ex post bias analysis loses meaning and remains void of content. In this line, AIReF is working with the different Regions to take steps towards compliance with the various aspects set out in art. 4.6 of Directive 2011/85/EU. To this end, AIReF has promoted the creation of a Working Group with the Regions to progress the deepening of the analysis and of the macroeconomic forecasts at the regional level as well as the homogenisation of the information provided. The initial results of the Working Group are expected to be presented in June 2018 and be useful for the preparation of the report on the macroeconomic forecasts of the Regions at the end of 2018. Meanwhile, the minutes of <b>all meetings are being published on AIReF's web page.</b></p>	



RECOMMENDATIONS OF THE COURT OF AUDITORS DOC.1248	RESPONSE: COMPLY OR EXPLAIN	MEASURES - JUSTIFICATION	TIME FRAME
4.7 g) The enforcement of a system that allows who <b>enters the data in AIReF's folders and</b> digitalised documents and when to be determined should be reinforced. Likewise, the reports and opinions must be signed by the President and be assigned a number that identifies them individually and specifically.	EXPLAIN/ COMPLY	<u>EXPLAIN:</u> There is already a system that allows AIReF to determine who enters data <b>in AIReF's folders and</b> digitalised documents and when. <u>COMPLY :</u> Since January 2018, the Reports and opinions are already signed by the President and have an identifying number.	Executed
4.8 a) The preparation of the Procedure Manuals describing the management processes established to carry out the economic-financial management of AIReF in its different sections should be promoted	EXPLAIN	AIReF already has a Manual on procedures for the realisation of expenses from Chapters 1 and 2, as well as a Tax Management Guide for its fee. In any case, it is a very small institution, with limited staff but multiple tasks and functions, which intends to carry out its work with the maximum flexibility. The preparation of other manuals would lack practical importance.	
4.8 b) The approval of a staff management document containing at least the description of <b>the rights and obligations of the Authority's</b> staff, the requirements for training, evaluation and access to the different labour categories, the composition and structure of salary payments and working hours should be established.	EXPLAIN	Personnel issues are perfectly regulated in Organic Law 6/2013, the Basic Statute of <b>Public Employees, AIReF's Organic Statute</b> and its Internal Regime Regulations, so that the approval of a Manual on the subject of staff would be superfluous. In any case, AIReF is a very small institutions, with limited staff but multiple tasks and functions, which intends to carry out its work with maximum flexibility. The preparation of this manual would lack practical importance.	
4.8 c) The enforcement of the publication on the AIReF web page of job announcements and award decisions should be reinforced.	COMPLY	The announcements for open job positions and award decisions are already published on the AIReF website.	Executed

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